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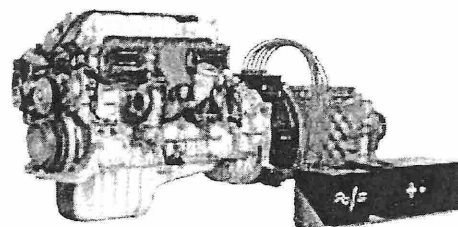
MOVING THE WORLD

Red hybrid bus of the future for the streets of London



Up to 35% lower fuel consumption

The Volvo B5L Hybrid Double Decker is equipped with a diesel engine with smaller cylinder volume than usual, since it is combined with an electric motor. It is the electric motor that is running the bus when it accelerates to a speed of 15–20 km/h. When the bus is underway, the parallel hybrid system combines diesel and electric power to maintain speed. At higher speeds, the bus uses diesel power alone. Regenerative braking energy charges the battery via the generator. Several of the Volvo hybrid auxiliary systems are powered by independent electric motors. These measures all contribute to high fuel savings on routes with frequent braking and acceleration, like city bus traffic. The parallel hybrid technology reduces fuel consumption and CO₂ emissions by up to 35% compared to conventional diesel buses. In the hybrid configuration, the emissions of nitrogen oxide and particulates are reduced by up to 50%.



When mega city London makes a commitment to reduce emissions, tradition and new technology are combined: A classic red double-decker bus using Volvo's latest hybrid technology carries London's citizens just as it always has – but with up to 35% less fuel consumption.



Of all passengers using public transportation in the world, 80% go by bus. Buses are easy to use in almost all types of traffic and are in many parts of the world the only public transportation. In London, buses are one out of many means of transportation, and play an important role as the city aims to reduce traffic.

North London's Green Lanes is a chaotic experience during rush hour. At the bus stop outside the popular pub The Fox, commuters get on and off a never-ending stream of red doubledeckers. Noise pollution from cars and diesel buses fills the street with an aggressive roar.

All this makes the contrast with Volvo's new hybrid double-deckers all the more evident. When it arrives at the bus stop, the diesel engine shuts down completely. You are left with a comforting silence that remains even as the hybrid bus leaves the stop, only using its electric motor to accelerate.

"It's fantastic how quiet it is when the diesel engine is turned off and it only runs on electricity," says Daniel Clarke, one of the commuters standing in line at the bus stop. "I can't even imagine what the difference would be if all buses were hybrids."

Arriva's Wood Green bus garage in North London is a pioneer of hybrid buses for London. In the summer of 2009, six brand new Volvo B5L Hybrid Double Decker buses arrived at the garage that has had previous experience of hybrid technology.

"We received the first hybrid buses in 2007 and now have a total of 11 hybrid double-deckers at Wood Green. Our experience of hybrid technology has been positive and all our staff, from mechanics to drivers, are pleased to be involved," says Ian Tarran, engineering director at Arriva London.

Transport for London, the body responsible for London's transport system, has made the hybrid buses a key part of their strategy for public transport with less environmental impact. To really put the Volvo Hybrid Double Decker to the test, bus route 141, was selected. The route starts at Palmers Green and ends at London Bridge, with a total length of nine kilometers and a tour frequency of 6–12 minutes.

"The field tests have shown that the fuel consumption of the Volvo Hybrid Double Decker is within our goals. On route 141, the buses have the toughest cycle possible and still their fuel consumption has been reduced by over 30% compared to the regular diesel buses on route 141," says Niklas Deras at Volvo Buses.

MARKET OVERVIEW

Long-term increase in demand for the Group's products and services

During 2009, the Group's mature markets showed a sharp decline in demand and during 2010 a gradual recovery from historically low levels. Demand in the Group's growth markets were affected to a much lesser extent by the financial crisis. After a brief downturn at the beginning of 2009, these markets returned to growth, and they showed a continued good growth in 2010.

Long-term growth

In the long-term, demand for freight capacity, and thus many of the Group's products, is closely linked to the GDP trend. The extent of investment in infrastructure, which drives demand for building and construction equipment, is also, closely linked to the GDP trend. In the short-term, demand is affected by a number of factors including fuel prices, the implementation of new emission regulations, interest rates, etc.

From a historical perspective, despite the recovery in the truck and construction equipment markets in 2010, demand was below the long-term trend in Europe, North America and Japan. The Volvo Group sees no development that would imply that the connection between GDP trends and the sales of vehicles and machines would have changed and, accordingly, the view is that in time, demand will recover and return to levels corresponding with the long-term trend.

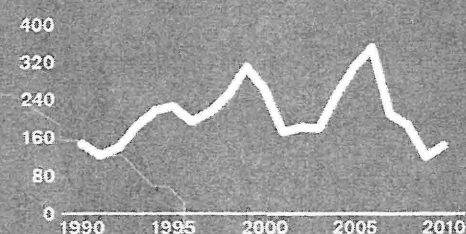
North America

In North America, sales of heavy-duty trucks rose 20% to 142,096 vehicles (117,983), primarily driven by rising demand for trucks for long distance haulage and regional distribution. The market for construction trucks remained weak. The market for construction equipment rose 20% after a three-year decline. However, the market still remained at a low level.

Despite the uncertain macroeconomic trend, the need to replace old trucks and upgrade the truck fleets is substantial, which is expected to drive an improvement in demand. The total market for heavy-duty trucks in North America is expected to amount to approximately 220,000 trucks in 2011. The market for construction equipment is expected to grow by 20–30% in 2011.

Heavy-duty truck market, North America

Vehicles, thousands



South America

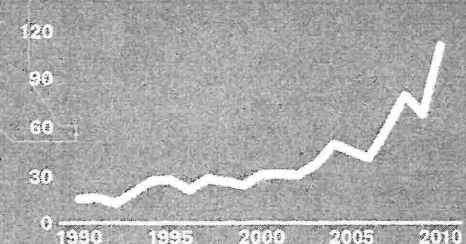
In South America, the key Brazilian market remained strong, primarily due to a healthy economy with strong growth in GDP, but also due to support measures including advantageous financing. The Brazilian market for heavy-duty trucks rose 64% to 109,760 vehicles (86,950). In South America as a whole, the market rose 61% to 138,763 heavy trucks (86,398). In Brazil, the

market for construction equipment rose 68%.

The pace of growth in the South American truck market is expected to plane out during 2011 after an extremely strong 2010, but despite this, demand is expected to remain at a healthy level. The Brazilian market for construction equipment is expected to grow by 5–15% in 2011.

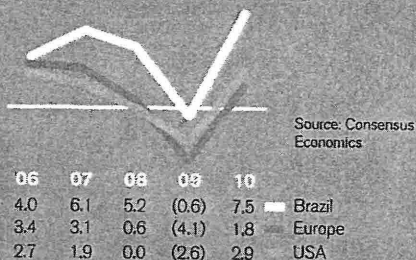
Heavy-duty truck market, Brazil

Vehicles, thousands



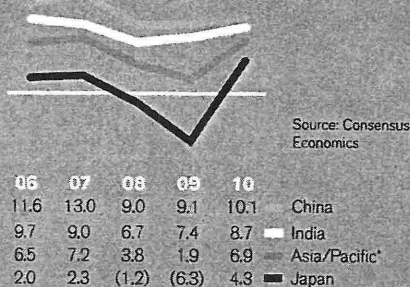
Economic growth in the U.S., EU and Brazil

Annual GDP-growth, %



Economic growth in Asia

Annual GDP-growth, %



According to Consensus Economics, global GDP grew by 4.0% during 2010 compared with a decline of 1.8% in 2009. GDP in the EU grew by 1.8% (-4.1%) in the US by 2.9% (-2.6%) and in Japan by 4.3% (-6.3%). Growth in countries such as Brazil, India and China was very strong. For 2011, global GDP is expected to grow by 3.4% with continued high growth rates in, among others, Brazil, India and China.

*China, Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand, Philippines, Vietnam, Australia, New Zealand, India, Japan, Sri Lanka

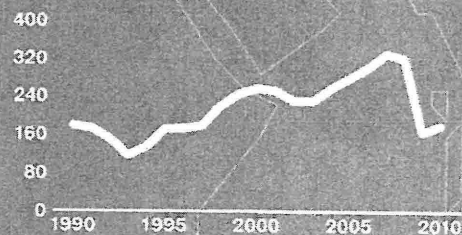
Europe

In Europe 29, (the 27 EU member states and Norway and Switzerland) registrations of heavy-duty trucks rose 8% to 179,185 vehicles in 2010, compared with 165,269 vehicles in 2009, driven by a recovery in Central and Northern Europe, while Southern Europe remained weak. The market for construction equipment rose by 15% in 2010.

It is difficult to gauge the effects European austerity packages will have on the economy in 2011, but Volvo currently estimates the truck market will amount to approximately 220,000 heavy-duty trucks. The market for construction equipment is expected to grow by 5-15% in 2011.

Heavy-duty truck market, Europe

Vehicles, thousands



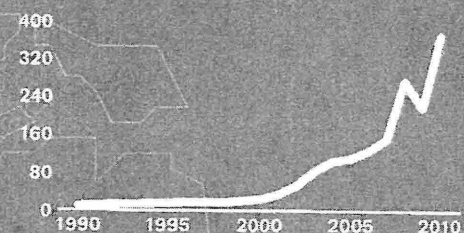
Asia

The Group's most substantial truck market in Asia is Japan, where demand weakened in the second half of the year after government scrapping premiums ceased and new tougher emission regulations were introduced. However, the total market amounted to 24,453 heavy-duty trucks, which was an increase of 29% compared with 18,889 trucks in 2009. In other Asian markets, demand rose compared with the preceding year. The Indian market for heavy-duty trucks rose by 69% to 211,543 vehicles (125,173). The market for construction equipment in Asia rose by a total of 60%, primarily driven by continued strong growth in China and India.

After a weak second half in 2010, demand for heavy-duty trucks is expected to recover gradually in Japan in 2011. The Japanese market for heavy-duty trucks is expected to grow by 10%. The market for construction equipment in both China and India is expected to grow by 5-15% in 2011.

Construction equipment market, China

Machines, thousands



Other markets

For trucks, Other markets comprises Africa and Australia. The Volvo Group's deliveries of trucks to Other markets rose 10% to 14,888 with a positive trend shown especially in North Africa and Australia. The market for construction equipment grew by 42%.

SIGNIFICANT EVENTS

Recovery, growth and product launches

2010 was characterized by a recovery in the Group's mature markets and a continued strong development in most of the growth markets. The Volvo Group's intensive product renewal continued in all business areas.

The first quarter

Annual General Meeting

The Annual General Meeting of AB Volvo held on April 14, 2010 approved the proposal from the Board of Directors and the President not to pay a dividend to the shareholders and that all of the funds at the disposal of the Annual General Meeting would be carried forward to the following year.

Peter Bijur, Jean-Baptiste Duzan, Leif Johansson, Anders Nyrén, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh were reelected as members of the Board of AB Volvo, and Hanne de Mora was newly elected. Louis Schweitzer was elected Chairman of the Board.

Thierry Moulouquet, representing Renault S.A.S., Carl-Olof By, representing AB Industrivärden, Håkan Sandberg, representing Svenska Handelsbanken, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen, Lars Förberg, representing Violet Partners LP and the Chairman of the Board, were elected members of the Election Committee.

The registered public accounting firm Price-waterhouseCoopers AB was elected as the company's auditor for a period of four years.

New trucks launched

On April 20, 2010, UD Trucks presented a new range of Quon heavy-duty trucks. The latest Quon lineup has been developed to meet high levels of demand for both fuel economy and driving performance. It features newly developed engines and automated manual transmissions based on Group architecture. UD Trucks has also



added a new model equipped with a new medium-duty engine to its Condor truck lineup.

On April 19, Volvo Trucks launched its new Volvo FMX construction truck at the Bauma international machinery trade fair in Munich, Germany. With the new truck, Volvo Trucks aims to increase its presence in the construction segment. Sales of the new Volvo FMX will begin in Europe in September, 2010.

Detailed information about the events is available at www.volvogroup.com

The second quarter

Investment in Indian facility for production of excavators

As part of Volvo Construction Equipment's (Volvo CE) objective of supporting customers in the growing BRIC (Brazil, Russia, India and China) markets, Volvo CE has announced a strategic investment in its existing facility in Bangalore, India. The investment, which totals around SEK 144 M, will allow Volvo CE to produce medium-sized excavators at the plant. These machines will

primarily be models for use in the Indian market. Production of the first machines is expected to start by the end of 2011.

Production of new medium-duty engine in India

The Volvo Group's Indian joint venture company, VE Commercial Vehicles (VECV) is to invest a total of SEK 480 M in the production of the Group's new global medium-duty engine in India. The investment gives the Volvo Group a complete facility in India for machining and assembling the new medium-duty engine, which will be introduced in the Group's trucks and buses worldwide in the next few years. Through this investment, it will be possible for the Volvo Group to locate most of its production of medium-duty engines to VECV's plant in Pithampur, India.

Sale of Volvo Aero's US service business

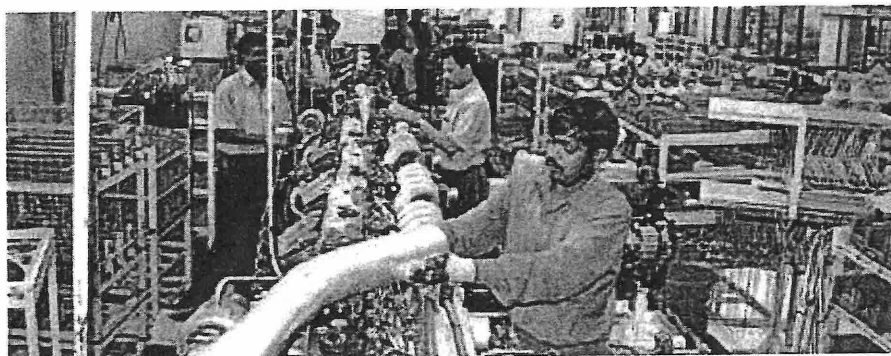
In July it was announced that Volvo Aero had signed an agreement to sell its US subsidiary Volvo Aero Services. The sale had a negative

impact of SEK 538 M on Volvo Aero's operating income in 2010. The sale of Volvo Aero Services is due to Volvo Aero's strategy of focusing on its core operations of developing and manufacturing components for aircraft engines, combined with the goal of reducing the company's tied-up capital.

The third quarter

UD Trucks and Nissan Motor end collaboration on contract manufacturing of light-duty trucks

The collaboration between Volvo Group's Japanese subsidiary UD Trucks and Nissan Motor on the contract manufacturing of light-duty trucks will expire and the production will end in January 2011. The decision enables UD Trucks to focus more on medium and heavy-duty trucks. UD Trucks will continue to have its own manufacturing operation for light-duty trucks for the export market. During 2009, UD Trucks produced 6,150 light-duty trucks within the collaboration framework and up to August 2010, 4,800 vehicles had been produced and sold to Nissan Motor. The end of contract manufacturing for Nissan Motor will not result in any restructuring costs or have any significant impact on the Volvo Group's earnings or financial position.



of 2011. At the same time Leif Johansson will also leave the Board of AB Volvo.

The Volvo Group enters partnership with WWF to reduce CO₂-emissions

The Volvo Group will be the world's first vehicle manufacturer to join the World Wide Fund for Nature's (WWF) Climate Savers Program. As a WWF partner, the Volvo Group's truck companies undertake to reduce the CO₂-emissions from vehicles manufactured between 2009 and 2014 by 13 million tons. Independent technical experts will oversee the results.

Events after balance-sheet date

Volvo part of investigation by European

Commission

In January 2011, Volvo Group and a number of other companies in the truck industry have become part of an investigation by the European Commission regarding a possible violation of EU antitrust rules.

Proposal for voluntary conversion of series A shares

In a letter to AB Volvo's Board of Directors ahead of the Annual General Meeting (AGM) on April 6 this year, AB Volvo's two largest shareholders – Renault S.A. and Industrivärden – have proposed an addendum to AB Volvo's articles of association that would permit voluntary conversion of series A to series B shares.

The fourth quarter

Volvo Group President and CEO Leif

Johansson to resign in the summer of 2011

After almost 14 years as President and CEO of Volvo, Leif Johansson in December informed the Board of AB Volvo of his intention to resign in conjunction with his 60th birthday in the summer

» **Corporate Governance Report** Volvo has issued a corporate governance report which is separate from the annual report. The corporate governance report is included in this document, after the annual report as such, on the pages 138–147.

ORGANIZATION

Organized to be close to customers and drive economies of scale

The Volvo Group's product-related companies in the different segments work closely together with customers while Group-wide resources in the business units work to create economies of scale. Approximately 70% of the Group's 90,000 employees work in the product-related companies and 30% work in the business units.

SEGMENT



Trucks

The truck operations product portfolio is sold and marketed under five different brands: Volvo, Renault, UD and Mack and also Eicher from VE Commercial Vehicles (50% ownership) in India. The product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.

Number of employees: 38,533 (37,575).

Number of delivered trucks: 179,989 (127,681).

NET SALES AS
PERCENTAGE OF
VOLVO GROUP'S
SALES

Volvo 3P

Volvo 3P is responsible for product planning, product development and purchasing for the Group's truck companies. Product planning involves having the right products over the longer term. Product development focuses on chassis, cabins and electrical systems. In purchasing, Volvo 3P offers significant size and negotiating strength. Number of employees: 3,748 (4,022).

Volvo Powertrain

Volvo Powertrain coordinates the Volvo Group's driveline operations and is responsible for the development and manufacturing of medium-duty and heavy-duty diesel engines, gearbox and driveshafts. Volvo Powertrain also manufactures light-duty engines for external customers and is responsible for ensuring that the Volvo Group is supplied with drivelines for medium-duty applications from external manufacturers. Number of employees: 8,305 (8,143).

Volvo Parts

Volvo Parts provides services and tools for the aftermarket. The services start with the suppliers and proceed via the dealers all the way to the end-customers. This entails planning, purchasing, shipping and storing parts, as well as inventory management, order management, and tools for workshop maintenance and other services for the aftermarket. Number of employees: 4,063 (4,133).

Volvo Logistics

Volvo Logistics develops and provides transport and logistics solutions to the automotive and aerospace industries worldwide. Its customers come partly from outside the Volvo Group. Volvo Logistics provides customer-adapted services throughout the logistics chain - everything from the design of complex logistics systems to packaging, insurance and distribution solutions for finished products. Number of employees: 1,194 (1,157).

Volvo Business Services

Volvo Business Services provides administrative services to Volvo Group companies. Its operations include accounts payable, accounts receivable, accounting and human resources administration. Number of employees: 902 (910).

Volvo Information Technology

Volvo IT's business concept is to manage complex IT systems. Volvo IT delivers solutions for all segments of the industrial process and provides unique expertise in product lifecycle management, SAP solutions and IT operation. Its customers include, for example, the Volvo Group, Volvo Cars and other large industrial companies. Number of employees: 4,952 (4,984).

Volvo Group Real Estate, Volvo Technology, Volvo Technology Transfer, Volvo Group NAP

BUSINESS UNITS

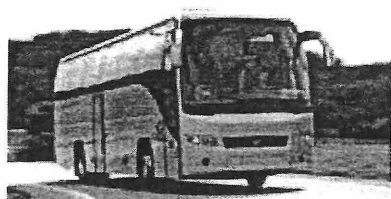
Business Units

The business units are organized globally and combine expertise in key areas. They have the overall responsibility for product planning and purchasing and for developing and delivering components, subsystems, services, and service and support to the Group's business areas. The structure creates economies of scale in product

development, production, parts supply, logistics, administration and support functions.

In addition to the business units in the overview below, there is Volvo Technology that develops new technology and new concepts for products and services in the transportation and automotive industries. Volvo Group Real Estate conducts property management and develop-

ment. Volvo Technology Transfer invests in companies with projects of technical and commercial interest. Volvo Group NAP (Non-Automotive Purchasing) is a global procurement organization sourcing the goods and services that are not used in the manufacturing of the Group's products.



Buses

has a product range comprising city and intercity buses, coaches and chassis.

Number of employees: 7,665 (8,095).

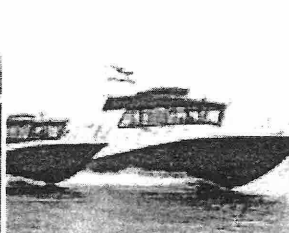
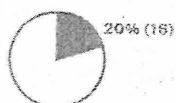
Number of delivered buses: 10,229 (9,857).



Construction Equipment
manufactures equipment for construction applications and related industries.

Number of employees: 13,599 (13,456).

Number of machines sold: 66,000 (38,800).



Volvo Penta

offers engines and drive systems for leisure and commercial boats and for industrial applications such as gensets and materials handling.

Number of employees: 1,211 (1,358).

Delivered marine and industrial engines: 51,588 (44,983).



Volvo Aero

offers advanced components for aircraft engines and space applications with a focus on lightweight technology for reduced fuel consumption.

Number of employees: 2,863 (2,991).



Volvo Financial Services

Conducts operations in customer and dealer financing.

Number of employees: 1,235 (1,234).

Total assets: SEK 89 billion (99).



TRUCKS

Strong earnings improvement

2010 was characterized by a recovery in demand in the Group's mature markets and continued strong growth in the emerging markets.

During the year, order intake in Europe and North America increased successively from low initial levels. The Japanese market grew during the first half of the year and then stumbled after the government incentive program for investments in new trucks ceased. Throughout the year, demand remained strong in many emerging markets, including Brazil and India.

Total market

The total market for heavy-duty trucks in 2010 in the 27 EU countries, plus Norway and Switzerland, amounted to 179,185 vehicles, an increase of 8% compared with 165,269 vehicles in the preceding year. The recovery of the European truck market was divided between North and South and between fleets and smaller customers, with the former categories recording stronger growth. In 2011, the European market is estimated to amount to approximately 220,000 heavy-duty trucks.

In North America, the total market for heavy-duty trucks (Class 8) increased 20% to 142,096 vehicles, compared with 117,983 in the preceding year. Viewed as a whole, higher levels of activity among customers in the long-haulage industry offset a continued weak market for trucks in the building and construction industry. In 2011, the total market in North America is estimated to amount to approximately 220,000 heavy-duty trucks.

The total market for heavy-duty trucks in Japan rose 29% to 24,453 vehicles (18,889). The Japanese market is expected to grow 10% in 2011. The market for heavy-duty trucks in India amounted to 211,543 vehicles (125,173), in 2010.

In Brazil, the total market rose 64% to 109,760 heavy-duty trucks (66,950), primarily driven by the country's strong economy, but also by advantageous loan terms for investments in new trucks.

Earnings

In 2010, net sales in the truck operations increased by 20% to SEK 167,305 M (138,940). The operating income improved to SEK 10,112 M (loss: 10,805), while the operating margin was 6.0% (neg: 7.8).

The improvement in operating income is principally due to improved sales and the considerable cost savings implemented in 2009. Higher capacity utilization as a side effect of increased production levels in most plants contributed to improved operating income.

commitment assisted in the rapid adaptation to substantially lower demand in parallel with the completion of long-term investments in the future. As a result, Volvo Trucks has exited the crisis a much stronger company.

Consistent implementation

Cost savings and measures to improve cash flow were implemented consistently. Breakeven levels were reduced considerably and maintained at the new levels through consistent cost discipline. Non-European markets recovered strongly led by South America, where Brazil proved extremely successful and profitable due to the company's strong position and presence. Combined with improved demand in parts of Europe, this resulted in the company being able to rehire personnel. In North America, demand for trucks for long-haulage transports increased successively throughout the year.

In 2010, the challenge comprised responding and adapting delivery capacity to rapidly rising demand. This was achieved through beneficial collaboration between employees and suppliers, which resulted in significantly increased deliveries and growing market shares. Also, delivery times were kept relatively short.

Volvo Trucks



Volvo Trucks can look back on a successful 2010 despite difficult market conditions.

Following the financial crisis in 2009, the employees' full

The truck operations consist of Volvo Trucks, Renault Trucks, UD Trucks, Mack Trucks and VECV in India (50% direct and indirect ownership). The product offer stretches from heavy-duty trucks for long-haulage and construction work to light-duty trucks for distribution.

Number of employees
38,533

Position on world market
In total, the Volvo Group is Europe's largest and the world's second largest Western manufacturer of heavy trucks.

Brands
Volvo, Renault, UD, Mack and Eicher.



Staffan Jufors
President of Volvo Trucks.



Dennis Slagle
President and CEO of North American Trucks.



Stefano Chmielewski
President of Renault Trucks.

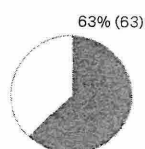


Pär Östberg
President of Trucks Asia.

Ambitions 2010

- Capture growth in emerging markets.
- Increase industrial productivity in up-turn.
- Control costs.
- Successful introduction of new engine generations in the US and Japan.

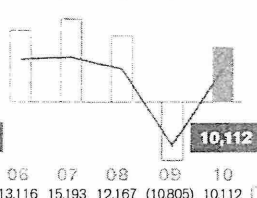
Net sales as percentage of Volvo Group's sales



Net sales SEK bn



Operating income (loss) and operating margin



Deliveries by market

Trucks	2009	2010
Europe	49,145	65,503
North America	17,574	24,282
South America	12,587	21,483
Asia	34,800	53,833
Other markets	13,575	14,888
Total	127,681	179,989

Net sales by market

Trucks, SEK M	2009	2010
Europe	65,874	69,606
North America	21,563	26,901
South America	12,490	21,680
Asia	26,943	35,231
Other markets	12,069	13,888
Total	138,940	167,305

Consistent product development

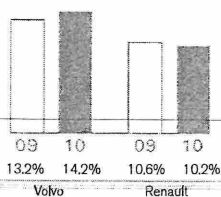
Throughout the crisis, Volvo Trucks maintained its investments in the dealer network, production system and product development. Two new trucks were launched in 2010 in line with long-term plans. The company consolidated its position in the building and construction segment through the launch of a new truck specialized for the segment, the Volvo FMX. Additionally, a new version of the Volvo FM distribution truck was launched. Both trucks were well-received by customers throughout the world.

In North America, customers responded very positively to Volvo's new trucks equipped with engines that meet the EPA 2010 emission requirement, which entered force on January 1, 2010, thus strengthening the market position.

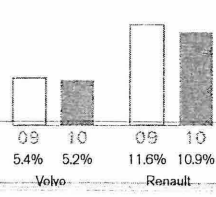
The year has seen the company make significant progress in the environmental area through presentation of new solutions and field testing with key customers of alternative fuels, including bio-DME, methane-diesel and hybrid technology.



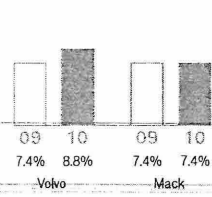
Market shares in Europe, heavy-duty trucks



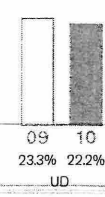
Market shares in Europe, medium-duty trucks



Market shares in North America, heavy-duty trucks



Market shares in Japan, heavy-duty trucks



Outcome 2010

- Strong increase in deliveries in Asia (+55%) and South America (+71%).
- Turned loss into profit of SEK 10 billion.
- The trucks with new engines captured market shares in the U.S.
- The new Quon truck with Group engine well-received by customers in Japan.

Ambitions 2011

- Manage to ramp up production in line with demand.
- Increase productivity in all parts of the business.
- Continued cost control.
- Secure delivery of product development projects according to plan.

Renault Trucks



For Renault Trucks, 2010 was a year in which the company proved its ability to make a comeback. After an extremely trying 2009, with many challenges, 2010 was about initiating the recovery, aided by the strong commitment of all employees.

Deliveries by market

Volvo Trucks	2009	2010
Europe	19,749	29,635
North America	8,028	12,749
South America	10,349	18,639
Asia	5,573	10,071
Other markets	3,712	4,135
Total	47,411	75,229

Renault Trucks	2009	2010
Europe	29,396	35,867
North America	458	54
South America	574	656
Asia	1,794	3,448
Other markets	5,263	5,563
Total	37,485	45,588

UD Trucks	2009	2010
Europe	-	-
North America	853	1,010
South America	445	300
Asia	16,753	23,908
Other markets	3,458	4,130
Total	21,509	29,348

Mack Trucks	2009	2010
Europe	0	1
North America	8,235	10,469
South America	1,219	1,888
Asia	505	47
Other markets	1,142	1,060
Total	11,101	13,465

Eicher ¹	2009	2010
Europe	-	-
North America	-	-
South America	-	-
Asia	10,175	16,359
Other markets	-	-
Total	10,175	16,359

¹ The joint venture together with Eicher Motor Limited is to 50% consolidated into the Volvo Group. The deliveries in the table pertain to the Volvo Group's share of Eicher's deliveries.

Recovery

After the first half of 2010 with a reduced working week for blue and white collar workers, the second half of the year brought a dramatic change. A gradual, steady increase in the order intake meant that by the summer, Renault Trucks was back in full production; however, the recovery was modest, slow and fragile. In view of the weak demand, focus was placed on the continued reduction of costs.

Renault Trucks retained its permanent employees with the assistance of government measures that permitted a reduced working week with lay-off pay. These measures enabled the company to retain its workforce pending the expected upturn, and were ended during the summer of 2010.

Presence

Renault Trucks maintained its presence at the forefront of key social issues, including the reduction in carbon emissions through the use of the hybrid and electric trucks delivered to customers.

The Renault Premium long-haulage truck proved best in respect of fuel consumption and operating costs in an independent test of a Pan-European truck fleet at a German freight company.

Renault Trucks continues to invest in product development to be able to launch new, competitive trucks in the next few years.

During the year, production of trucks started at the plant in Kaluga, Russia.

UD Trucks



2010 was a significant year for Nissan Diesel. On February 1, Nissan Diesel changed its name to UD Trucks with the aim of building UD into a global truck brand. UD Trucks has a wide range of light, medium-duty and heavy-duty trucks, as well as buses and bus chassis.

Market shares

In the first half of 2010, the Japanese market was positively affected by the scrapping premiums for old trucks if owners concurrently invested in new, greener products. Since UD Trucks had a substantial percentage of trucks that met the new environmental requirements, the company captured market shares. When the scrapping premiums ceased in August, demand weakened. The total market for heavy-duty trucks rose 29% to 24,453 vehicles (18,889). During the year, UD Trucks had 22.2% of the Japanese market for heavy-duty trucks compared with 23.3% in 2009.

UD - Ultimate Dependability

UD, which stands for Ultimate Dependability, became the new brand since the abbreviation was already recognized by customers, who call the vehicles UD products. The UD name is widely known since the letters are engraved in the emblem, which since the 1950s, has been located on both sides of the vehicles. In conjunction with this change, the name of the company was changed from Nissan Diesel Motor Co. Ltd to UD Trucks Corporation.

New trucks launched

The new generation of heavy-duty trucks in the Quon range was launched in the Japanese market in April and the first version of the new Condor range in August. Sales of the new Condor truck have also started in the US. These new truck models are equipped with SCR engines based on the Group's joint engine platforms. They meet with the latest emission legislation in Japan and the USA and have improved fuel efficiency. Additionally, UD Trucks launched the UD Genuine After Market program to provide customers with access to original service and original spares, which will help customers reduce their operating expenses.

Mack Trucks



In North America, the overall economic environment, along with demand for heavy-duty highway trucks, gradually improved moving through the year.

As large competitor inventories of pre-EPA2010 engines were finally drawn down and a more level playing field was established, both Mack and Volvo capitalized on their more extensively tested, highly fuel efficient, fully certified EPA2010 products that comply with the new emission standards introduced in North America in January 2010.

Positive response from customers

Feedback regarding both Mack and Volvo EPA2010 trucks, particularly on fuel economy and engine performance, grew ever more positive throughout the year, as more and more customers gained experience with the products. To meet increasing demand, production was gradually ramped up in all manufacturing facilities during the second half of the year.

Many new products launched

For Mack, the ongoing weakness in the construction segment remained a significant challenge. Despite essentially no market for the dump and mixer trucks that are core to its business, the brand finished the year with a U.S. retail share equal to 2009, reflecting a determined effort to increase volumes in other segments.

Mack maintained its longtime leadership position in low cabover straight trucks used primarily in refuse applications. The brand also moved from the number four to the number two position in the day cab and small sleeper segment of the highway market. Both Chrysler Group Transport and global logistics leader UPS placed significant orders for Mack EPA2010-certified Pinnacle day cabs (325 and 475 respectively).

In line with the Group's commitment to ongoing investment despite difficult market conditions, Mack introduced the mDRIVE automated manual transmission based on highly regarded Group architecture. The mDRIVE is developed to work with Mack's MP engines to deliver better fuel economy, driveability and safety. Mack also expanded its line-up of natural gas (NG) trucks, introducing an NG-powered version of its Terra-Pro cabover model for refuse and construction customers.

Eicher



VE Commercial Vehicles (VECV), which is a joint-venture company opened by the Volvo Group and Eicher Motors, designs, develops, manufactures and markets trucks and buses under the Eicher brand. 50% of VECV is consolidated in the Volvo Group.

Eicher's product range comprises light, medium-heavy and heavy-duty trucks and buses in the weight classes 5-40 tons and complete bus chassis in the 5-15 ton range. The company has an extensive dealer and service network principally located in India.

Eicher's industrial operations comprise the manufacture of cabs, axles, gearboxes and engines as well as assembly of trucks and buses. Key investments are currently being made in painting, expansion of capacity, a new engine plant, in the wholly-owned distribution network and in a product development center for developing the next-generation of trucks and buses.

Increased market shares

In 2010, the total market for medium-duty trucks (7-16 tons) rose by 50% in India while deliveries of Eicher trucks in the medium-duty segment increased by 51%.

In India, demand for heavy-duty trucks over 16 tons showed solid growth of 69% in 2010. Deliveries of Eicher trucks in the heavy-duty segment rose by 105%, significantly outperforming the market and leading to increased market shares.

Deliveries by segment

Volvo Trucks	2009	2010
Light trucks (under 7 tons)	-	-
Medium trucks (7-16 tons)	1,556	1,758
Heavy trucks (over 16 tons)	45,855	73,471
Total	47,411	75,229

Renault Trucks	2009	2010
Light trucks (under 7 tons)	13,993	14,140
Medium trucks (7-16 tons)	5,556	7,385
Heavy trucks (over 16 tons)	17,936	24,063
Total	37,485	45,588

UD Trucks	2009	2010
Light trucks (under 7 tons)	8,248	9,657
Medium trucks (7-16 tons)	6,651	9,572
Heavy trucks (over 16 tons)	6,610	10,119
Total	21,509	29,348

Mack Trucks	2009	2010
Light trucks (under 7 tons)	-	-
Medium trucks (7-16 tons)	1	2
Heavy trucks (over 16 tons)	11,100	13,463
Total	11,101	13,465

Eicher ¹	2009	2010
Light trucks (under 7 tons)	1,113	2,014
Medium trucks (7-16 tons)	7,889	11,940
Heavy trucks (over 16 tons)	1,174	2,406
Total	10,175	16,359

¹ The joint venture together with Eicher Motor Limited is to 50% consolidated into the Volvo Group. The deliveries in the table pertain to the Volvo Group's share of Eicher's deliveries.

BUSES

Increased sales and improved profitability

During 2010, Volvo Buses strongly improved its income due to a customized product range, higher sales and a strong focus on cost reductions.

Volvo Buses is one of the world's largest manufacturers of heavy buses. The range comprises complete buses, chassis, transport solutions, telematic systems, financial solutions, as well as service and maintenance contracts. The company offers global products adapted to local conditions, with manufacturing in Europe, Asia, North America, South America and Africa.

Volvo Buses has sales in about 85 countries and one of the bus industry's strongest service networks, with more than 1,500 retailers and service workshops globally.

Focus on cost-efficient solutions

In the bus industry, focus remains on developing cost-efficient transport solutions and reducing energy consumption and the impact on the environment. It is about lower fuel consumption, alternative fuels and alternative energy sources.

During the year, Volvo Buses began delivering buses that comply with the tough Euro V emission requirements in Europe and EPA2010 in North America, including buses with the new 13-liter engine. The response from customers

has been very positive, both in terms of improved performance and reduced fuel consumption.

Serial production of hybrid buses

During the year, the company also took an important step toward significantly reducing energy consumption in terms of city buses. In May, serial production commenced on the Volvo 7700 Hybrid buses and Volvo B5L Hybrid double-decker buses. By recycling the brake energy, the buses will be able to operate partly on electricity, which will contribute to a reduction in fuel consumption of up to 35% and, accordingly emissions of the greenhouse gas, carbon dioxide. Volvo's hybrid buses currently operate in several cities around Europe. Interest is high worldwide and during the year, the hybrid buses were test-driven in Brazil, Colombia and Mexico.

Developing aftermarket

However, high-quality buses are not sufficient. Customers need a strong support in the aftermarket. This applies to telematics, which assists customers in controlling traffic, conducting fol-

low-ups of fuel consumption, for example, and in planning service. Volvo Buses' telematic system, ITS4mobility, is one of the world's best and a third step, Vehicle Management, was introduced during the year. This means that customers are able to remotely read all signals from the buses' control system and thus plan future service measures, resulting in reduced costs.

Increased deliveries

Despite the weak trend reported during the year for the total market for Volvo Buses' key markets in Europe and the coach market in North America, Volvo succeeded in increasing deliveries compared with 2009. During the year, 10,229 buses and bus chassis (9,857) were delivered.

Sales increased in several locations in Asia, for example, in India and Australia, as well as in South America and in the Nordic region. During the year, Volvo Buses was able to strengthen its market shares in several markets.

Increased sales and improved profits

Net sales rose in 2010 to SEK 20,516 M (18.465). Operating income rose from a negative SEK 350

Buses has a product range comprising city and intercity buses, coaches and chassis.

Number of employees
7,665

Position on world market
The business area is one of the world's largest producers of buses.

Brands
Volvo, Prevost, Nova, Sunwin and Silver.

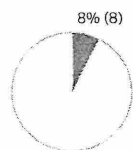


Håkan Karlsson
President of Volvo Buses.

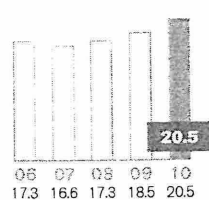
Ambitions 2010

- Profitable growth in all regions.
- Continued focus on cost-cutting and lower inventory levels.
- Increased sales of services and aftermarket products.
- Secure successful introductions of Euro V, EPA 2010 and hybrids.

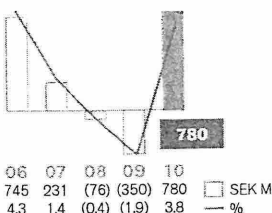
Net sales as percentage of Volvo Group sales



Net sales SEK bn



Operating income (loss) and operating margin



Deliveries by market

Buses	2009	2010
Europe	3,164	2,395
North America	1,539	2,092
South America	690	1,174
Asia	3,839	3,477
Other markets	625	1,091
Total	9,857	10,229

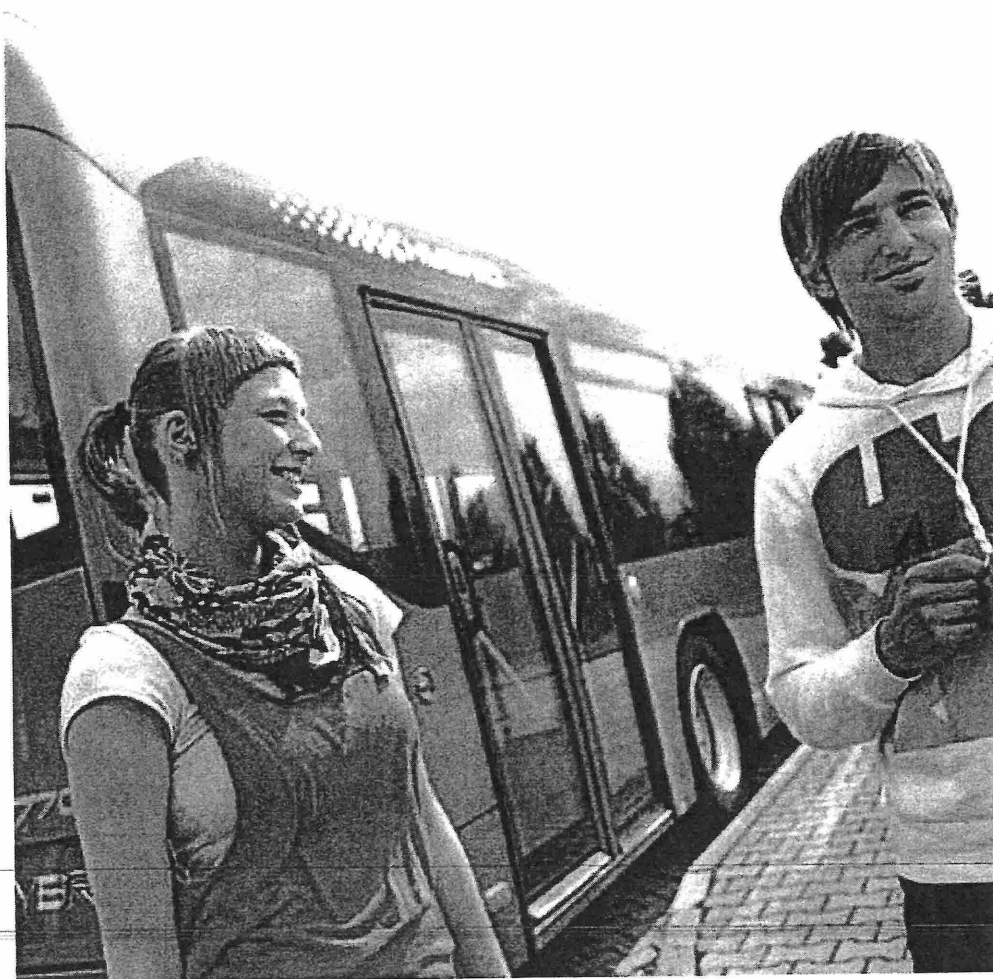
Net sales by market

Buses, SEK M	2009	2010
Europe	7,707	6,242
North America	5,673	7,200
South America	1,235	1,737
Asia	2,749	3,299
Other markets	1,101	2,038
Total	18,465	20,516

M to a positive SEK 780 and the operating margin was 3.8% (neg: 1.9). An important explanation for the strong income improvement is higher sales. Another explanation is the effort from the company to reduce costs and streamline the product offering and production.

New bus generates rational production

During the year, Volvo Buses launched a new intercity bus in Europe, the Volvo 8900. It is lighter and more fuel-efficient and will replace two similar bus models. The new bus is built in a module system and can be manufactured in Volvo's plants in Sweden and Poland. This will generate a more rational and flexible production.



Outcome 2010

- Increased sales in all regions and the company reported positive results.
- Costs decreased and inventories levels were lower.
- Higher sales and income in the aftermarket operations.
- The new products were introduced and were received very well by customers.

Ambitions 2011

- Profitable growth in all regions.
- Increased aftermarket operations.
- Increased utilization of global production presence.
- Focus on cost and capital efficiency.

CONSTRUCTION EQUIPMENT

Good growth in sales and profit

Volvo CE is one of the world's leading manufacturers of articulated haulers and one of the leading manufacturers of wheel loaders, excavators, road construction equipment and compact machines.

Volvo CE's products, spare parts and services are available in more than 125 countries. The products are mainly used in such segments as general construction, road construction and maintenance, as well as in the refuse, mining and forestry industries.

Recovery

Measured in units sold, the total world market for heavy, compact and road machinery equipment increased by 44%, compared to 2009. During 2010, the European markets rose 15%, while North America rose 20%. Both Asia and Other markets rose 60%. The strong growth in the BRIC countries, Brazil, Russia, India and China, propelled development to a large extent.

Increase in delivery and sales

During 2010, Volvo CE sold 66,000 machines, compared with 38,800 machines in 2009. Net sales amounted to SEK 53,810 M, an increase of 51%, compared with SEK 35,658 M in 2009.

Operating profit totaled SEK 6,180 M (loss: 4,005). The operating margin improved significantly and amounted to 11.5%, compared with a negative 11.2% in 2009. The improved operating profit was attributable to increased sales, internal cost-reduction measures, improved cost coverage in the production system and higher productivity.

Secure development in the BRIC countries

During the year, several initiatives were implemented to support development in the BRIC countries (Brazil, Russia, India and China).

Investments to expand excavator manufacturing were made in India and decided upon in Brazil. The investments include assembly and manufacture of components for the models in the domestic markets. In China, excavator capacity was also increased by a decision to commence manufacturing four new models of the SDLG excavators.

In March, a decision was made to build a new technology center in Jinan, China. The technology center will focus on the development of products and components for equipment for the BRIC countries and includes the Volvo and Lingong brands.

Presence in the Russian market was strengthened further by an agreement with Ferronordic, which is planning to expand its distribution network with more affiliates to increase sales and service.

Joint product plan

As the Chinese economy is growing, so is demand for excavators. Supported by Volvo CE, Lingong has now launched its own excavators. The cooperation between Volvo and Lingong has also been strengthened by a joint product plan.

Key aftermarket

Service and aftermarket products play a key role for Volvo CE as a supplier of turnkey solutions. Service and aftermarket products accounted for 23% of the total earnings in 2010. For instance, the sale of attachments increased from SEK 540 M to SEK 1,270 M.

Increased usage of telematics

Through continuous equipment monitoring, Volvo CE's telematic system, CareTrack, is able to facilitate additional productivity and accessibility. By using GPS or satellite technology, information about the machines may be forwarded to any possible location. Through error reports and warnings, the system offers diagnostic assistance, which, in turn, facilitates identifying and repairing problems more rapidly. During 2010, a decision was made that all newly produced large machines (wheel loaders in excess of 10 tons, haulers and excavators in excess of 12 tons, as well as graders) will include a three-year CareTrack service agreement as a standard feature.

Focus on efficiency in production and development

To additionally streamline the industrial system, three North American plants were reduced to one. The plants in Asheville and Goderich were closed and production relocated to the plant in Shippens-

Construction Equipment manufactures equipment for construction applications and related industries.

Number of employees
13,599

Position on world market

Volvo CE is the world's largest manufacturer of articulated haulers and one of the world's largest manufacturers of wheel loaders, excavators, road development machines and compact construction equipment.

Brands

Volvo and SDLG (Lingong).

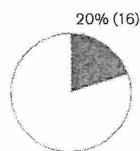


Olof Persson
President of Volvo Construction Equipment.

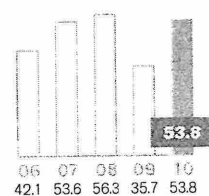
Ambitions 2010

- Secure market penetration and product adaptation in BRIC countries.
- Integrate Lingong with a joint business plan for a broader offer in emerging markets.
- Prioritize hard and soft products for new markets and customer segments.
- Increase the use of telematics in products.
- Optimize the industrial footprint to become more efficient in production and development.

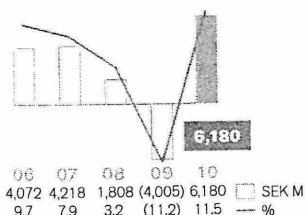
Net sales as percentage of Volvo Group sales



Net sales SEK bn



Operating income (loss) and operating margin



Net sales by market

Construction Equipment, SEK M	2009	2010
Europe	12,987	16,138
North America	5,475	6,267
South America	2,578	4,130
Asia	12,957	24,352
Other markets	1,661	2,923
Total	35,658	53,810

burg. USD 30 M was invested to expand the plant to improve production flow and increase capacity. At the same time, the plant meets all requirements to be classified as a sustainable facility in accordance with the U.S. Green Building Council.

Product launches

Volvo CE is moving ahead with its plans to deliver turnkey solutions adapted for various customer groups. At the same time, the investment in soft products continues and Volvo CE will continue to launch new value-adding products and services for customers.

Product launches in 2010 include compact excavators EC15, EC17, EC21 and EC23, as well as compact wheel loaders L20F and L25F. In addition to these, large wheel loaders L150, 180 and L220 also included OptiShift as a standard feature.

An additional key event in 2010 was that Volvo CE was awarded the Tier 4i certificate from the U.S. Environmental Protection Agency, EPA, which certifies low emissions from heavy equipment equipped with the D11, D13 and D16 engines. This occurred after a similar certificate was received from the EU earlier in the year certifying that the engines complied with requirements in Europe's Stage IIIB legislation.



Outcome 2010

- Expansion of excavator production in India and Brazil. Decision to establish a technology center in China.
- Increased cooperation and synergies between Volvo and Lingong, with, among others, a joint product plan.
- Equipment and service optimized for prioritized markets.
- Telematic system, CareTrack, introduced as standard in all major machines.
- Production in North America consolidated from three plants to one.

Ambitions 2011

- Further strengthen the position in the BRIC countries.
- Continue to reduce the break-even level by cost reductions – material, as well as variable and fixed costs.
- Successful launch of Tier4i and Stage IIIB engines in North America and Europe.
- Continued development and launch of new products and services.

VOLVO PENTA

Improved profitability despite weak leisure boat market

Volvo Penta conducts its operations in two overall business segments: Marine and Industrial. For a broader general public, Volvo Penta is mostly known for its marine engines and world-leading innovations, such as the Aquamatic drive and the counter-rotating propellers, DuoProp. Boat owners worldwide associate Volvo Penta's products with fuel-efficiency, environmental consideration, comfort, performance and operating safety.

Market-leading boat builders French Beneteau/Jeanneau, German Bavaria, British Sunseeker, Italian Sessa Marine, US Tiara, Brazilian Intermarine, Swedish Hallberg-Rassy and Australian Riviera choose Volvo Penta because of one of the marine industry's broadest product programs and to have access to the world's most global service and retail network.

However, the most rapidly growing operation for Volvo Penta in the past decade has been sales of industrial engines, which currently represent about 40% of Volvo Penta's total sales value.

The basis for the industrial engine business is the strength in the Volvo Group's total product and service offering. Assisted by these, Volvo Penta is able to offer high-technological products, as well as global support for such industrial applications as diesel-operated gensets, cranes and container handlers.

Customers include such world-leading industrial companies as Finnish Cargotec, French-American SDMO, Turkish Genpower and Swedish Sandvik.

The ambition is to expand industrial engine sales through increased market shares in an

increasing number of segments, for example, mining and construction equipment, and in emerging markets in, for example, Asia and Africa.

Through sales of marine and industrial engines, Volvo Penta will contribute significant synergies and economies of scale to the Volvo Group's manufacture of engines and transmissions. Approximately 10% of the Group's total diesel volume represents engines sold by Volvo Penta.

With respect to the Volvo Group's most efficient engine, the D16, Volvo Penta accounts for approximately two thirds of the Group's total sales and consequently, delivers a crucial volume contribution to this engine series.

Total market

The strong decline in the total market in the marine industry in the wake of the global recession slowed down in 2010. Global demand for marine engines remained largely unchanged, compared with the preceding year. The marine industry was characterized during the year by a continued cautious attitude among end consumers. On average, boat builders reported a continued low production rate in their plants, compared with the boom years.

However, the total market for industrial engines strengthened due to increased demand in essentially all regions. During the year, leading industrial engine customers gradually raised sales forecasts and capacity utilization to increasingly higher levels.

Product renewal

Volvo Penta reported a continued high rate of product renewal. During the year, the introduction of the IPS drive system was completed with new and stronger drive units to match the Volvo Group's 11 and 13 liter engines. With these systems, Volvo Penta will be able to deliver propulsion engines in boats up to 100 feet.

On the industrial side, future emission requirements entail that Volvo Penta, with its strong product program and low emission engines, will be able to capture new market shares with industrial customers in Europe, but also in the rest of the world where the environmental requirements are successively being intensified.

Financial performance

Net sales amounted to SEK 8,716 M, compared with SEK 8,159 M in the preceding year. Operat-

Volvo Penta provides engines and power systems for leisure and commercial craft, as well as for industrial applications such as diesel-powered gensets, cranes and container handlers.

Number of employees
1,211

Position on world market

Volvo Penta is the world's largest producer of diesel engines for leisure boats and a leading, independent producer of industrial engines.

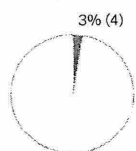


Göran Gummeson
President of Volvo Penta.

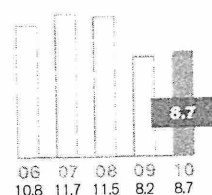
Ambitions 2010

- Manage risks towards suppliers and customers.
- Secure positive cash flow and favorable profitability in new market conditions.
- Strengthen positions within mobile applications for industrial engines.

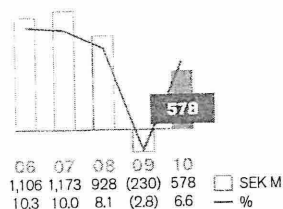
Net sales as percentage of Volvo Group sales



Net sales SEK bn



Operating income (loss) and operating margin



Engine volumes

Volvo Penta, No. of units	2009	2010
Marine engines	25,755	28,965
Industrial engines	19,228	22,623
Total	44,983	51,588

Net sales by market

Volvo Penta, SEK M	2009	2010
Europe	4,390	4,507
North America	1,100	1,500
South America	284	335
Asia	2,054	2,008
Other markets	331	366
Total	8,159	8,716

ing income amounted to SEK 578 M, compared with an operating loss of SEK 230 M in the preceding year. The operating margin was 6.6% (neg: 2.8). Income was positively impacted by primarily the effects of cost-reduction measures, but also to a certain extent by increased sales and higher capacity utilization.

Production and investments

In recent years, Volvo Penta made significant investments in a new global logistics system. The new system, which was launched in 2010, will facilitate streamlining the entire chain from order to delivery.

Production in the plants in Vara, Sweden and Lexington, USA had low capacity utilization resulting from continued weak demand for marine engines globally.

As a result of the increasingly strong demand for industrial engines, Volvo Penta was able to contribute to higher capacity utilization in the Volvo Group's joint diesel engine plants in Skövde, Sweden and Lyon, France.



Outcome 2010

- Customer credit losses and deliveries from subsuppliers under control.
- Continued favorable growth in the industrial engine segment.

Ambitions 2011

- Increased growth rate and improved profitability in both Marine and Industrial.
- Secure complete customer offers for fully-integrated drive systems and instruments.
- Secure product and geographic balance in terms of sales and profitability.

VOLVO AERO

Improved profitability in the core business

Volvo Aero is playing an increasingly major role in the aircraft-engine industry. The business area is specialized in sophisticated structures, engine cases and rotating parts of aircraft engines.

In recent years, Volvo Aero has taken more design responsibility and currently develops components for both aircraft and rocket engines, which are based on a proprietary design system and proprietary manufacturing technologies. The business area's engine components are found in more than 90% of all new major civil aircraft worldwide.

Focus on core operations

The aim of most of the technological development is to reduce the weight of proprietary components in various manners, since weight is highly significant in fuel consumption and emissions of carbon dioxide. This is an area that is becoming increasingly important to the aviation industry, both in terms of the climate and economy. Naturally, quality and safety are also in focus in the effort to reduce weight.

In recent years, Volvo Aero has focused increasingly on its core operations: maintenance of a few selected engines and developing and manufacturing sophisticated components for aircraft and rocket engines. As a result of this strategy, certain other operations have been divested or discontinued.

Major engine programs

During 2010, Volvo Aero was highly involved in all four new major engine projects that are occupying the aircraft-engine industry and will be highly sig-

nificant to the development of the aircraft of the future. During the year, a number of key milestones were achieved in the development of these engines:

These include the starting of the new Rolls-Royce engine, Trent XWB, in a test cell for the first time in June. Volvo Aero is a joint-venture partner in the XWB engine, responsible for design, development and manufacture of the intermediate case, the first in titanium to be developed and manufactured entirely within Volvo Aero's new design system. The Trent XWB will be used in the Airbus A350 XWB, which is scheduled to enter service in 2013.

Pratt & Whitney completed the assembly of the first PW1000G engine, "PurePower", for the Bombardier C series aircraft and Mitsubishi's MRJ aircraft. Volvo Aero is a joint-venture partner in the engine, responsible for the design, development and manufacture of a couple of components. Following the final assembly, a comprehensive evaluation and certification program commenced, which will continue for the next 24 months, with engine certification and the first flight with the aircraft scheduled for 2012. The aircraft is scheduled for commercial use in 2013.

The first flight of Boeing's upgraded 747-8 aircraft was successfully executed in the spring, using four GENx-2B General Electric engines.

Volvo Aero is joint-venture partner in the GENx engine, with responsibility for design and develop-

ment of three components, and will manufacture a total of five different components for the engine.

In 2007, Volvo Aero was contacted by Pratt & Whitney about redesigning the intermediary case for the GP7000 engine for the Airbus A380. One of several requirements specified was that the weight should be reduced by at least 10%. At the end of the year, Volvo Aero was able to present a solution that met these requirements.

Key agreements

The Defence Materiel Administration (FMV) and Volvo Aero signed an agreement entailing that Volvo Aero will be responsible for engine maintenance, spare parts supply and technical product support for the Gripen aircraft engine in Sweden, Hungary and the Czech Republic. The agreement, which is valid for two years, with an option for an additional three years, is estimated to be worth approximately SEK 1.2 billion for Volvo Aero if the option is exercised.

In terms of maintenance, a key partnership agreement was signed with Lufthansa Technik (LTH), whereby Volvo Aero has already provided the first repairs to an engine in service. The repairs were approved by General Electric. Lufthansa and Volvo Aero now has exclusive rights to implementation.

Volvo Aero made a strategic decision to focus on its core operations and as a result, the US subsidiary

Volvo Aero offers advanced components for aircraft engines and space applications with a focus on light-weight technology for reduced fuel consumption. Services for the aerospace industry and for stationary gas turbines are also offered.

Number of employees
2,863

Position on world market

Volvo Aero holds a leading position as an independent producer, with engine components in about 90% of all large commercial aircraft delivered in 2010.

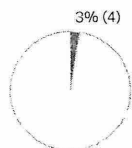


Staffan Zackrisson
President of Volvo Aero.

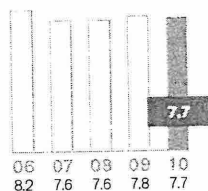
Ambitions 2010

- Manage the continued development responsibility and supply test hardware for the new engine programs Trent XWB and PWG1000G.
- Increase productivity in carried-out investments, shorten lead times and reduce costs.
- Continue to gain market share within engine services.
- Conduct a strategic overhaul of the American aftermarket business.

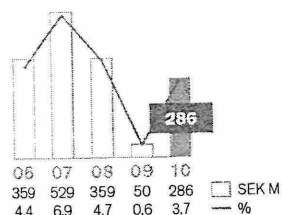
Net sales as percentage of Volvo Group sales



Net sales SEK bn



Operating income (loss) and operating margin



Net sales by market

Volvo Aero, SEK M	2009	2010
Europe	3,942	3,768
North America	3,508	3,599
South America	34	27
Asia	205	233
Other markets	114	81
Total	7,803	7,708

Volvo Aero Services was divested at the beginning of October to investment company H.I.G. Capital.

Increased air traffic

During the year, international passenger traffic rose 8.2% following the deep recession in 2009. The load factor rose to 78.4%. The international cargo traffic rose 20.6% in 2010 compared with 2009.

Aircraft manufacturers Airbus and Boeing delivered 972 aircraft during 2010, which was 1% less than 2009. The total order intake was 1,269 aircraft, 121% more than in 2009. The manufacturers' total order intake rose 2% to 6,995 aircraft at the end of 2010.

Improved profitability

Net sales decreased 1% during the year to SEK 7,708 M, compared with SEK 7,803 M in 2009, primarily due to the lower USD and the divestment of Volvo Aero Services. Adjusted for exchange-rate fluctuations and the sale of Volvo Aero Services, sales rose 9%.

The divestment of Volvo Aero Services, which was implemented at the beginning of October, had a negative impact of SEK 538 M on operating income. Consequently, the operating profit amounted to SEK 286 M (50). The operating margin was 3.7% (0.6). Factors behind the improvement were primarily lower costs, higher productivity and increased sales in the core operations.



Outcome 2010

- Volvo Aero has implemented development and delivery in the main according to plan.
- Successful work with higher productivity, shorter lead times and reduced costs.
- Increased market shares during 2010.
- Review implemented, resulting in the divestment of Volvo Aero Services.

Ambitions 2011

- Deliver design, hardware and serial manufacture of engine components according to commitments.
- Increase productivity, shorten lead times and reduce costs.
- Increase volumes in engine maintenance.

VOLVO FINANCIAL SERVICES

Positioned for growth

Volvo Financial Services (VFS) supports the Volvo Group product range with integrated financing solutions to help customers acquire the products they need to build their business.

Stabilization of portfolio

As the world began to emerge from the global economic and financial crisis, 2010 was a year of stabilization for VFS. While the first half of the year continued to be plagued by a challenging economic environment, the second half began to demonstrate more positive trends, characterized by a reduction in overall levels of customer delinquencies, inventories of repossessed vehicles and default activity.

Throughout this period, VFS executed on enhanced portfolio management and collection techniques while strengthening and standardizing its operations. As VFS stabilized its portfolio, it did so in close alignment with the other Volvo Group business areas and distributors, with a focus on building and maintaining customer relationships.

Market development

VFS is a stronger and more agile organization today than before the downturn and is well positioned for growth. Continuing to develop scalable and efficient business platforms will provide the capacity for VFS to grow its global portfolio.

In mature markets such as North America and Europe, operational leverage is essential to future development. In Asia Pacific, VFS is making fur-

ther investment in support of prudent growth. The development of the BRIC markets remains in focus while maintaining stable and standardized operations and systems.

Developing integrated offers with the other Volvo Group business areas will also continue, as VFS supports the Volvo Group in developing sales opportunities and building close customer relationships.

Financial performance

Total new financing volume in 2010 amounted to SEK 35 billion (29). Adjusted for changes in exchange rates, new business volume increased by 26% compared to 2009 as a result of increased sales volumes of the Volvo Group products and good penetration levels. In total, 34,522 new vehicles and machines (25,782) were financed during the year. In the markets where financing is offered, the average penetration rate was 25% (25).

At December 31, 2010 total assets amounted to SEK 89 billion (99). During 2010 the credit portfolio decreased by 4.4% (decrease: 15.6), adjusted for exchange-rate movements, to gross credit portfolio SEK 84,550 M (94,988). The funding of the credit portfolio is matched in terms of maturity, interest rates and currencies in

accordance with Volvo Group policy. For further information, see note 36.

The operating income for the year amounted to SEK 167 M compared to operating loss of SEK 680 M in the previous year. Return on shareholders' equity was 0.4% (neg: 6.2). The equity ratio at the end of the year was 9.0% (8.7). The income is driven mainly by lower credit provisions. During the year, credit provision expenses amounted to SEK 1,438 M (2,327), while write-offs of SEK 1,460 M (2,223) were recorded. The write-off ratio for 2010 was 1.65% (2.09). At December 31, 2010, credit reserves were 1.69% (1.67%) of the credit portfolio.

As a consequence of the strong volume growth in Brazil, it was decided to syndicate approximately SEK 4 billion of the Brazilian credit portfolio as a risk mitigation measure and to free up capital for reinvestment in the country. The transaction generated a positive impact on operating income of SEK 38 M.

In May, VFS successfully completed its first asset-backed securitization in many years. Under the terms of the transaction, USD 616 M of securities tied to U.S.-based loans on trucking and construction equipment assets were issued.

Conducts operations in customer and dealer financing.

Number of employees
1,235

Position on world market
Volvo Financial Services operates exclusively to support the sales and leasing of vehicles and machines which are produced by the other Business Areas, enhancing their competitiveness.

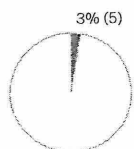


Martin Weissburg
President of Volvo Financial Services.

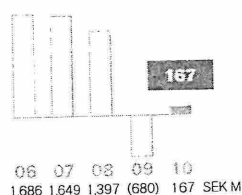
Ambitions 2010

- Support customer and dealer downturn activities while mitigating the frequency and severity of credit losses.
- Adapt commercial strategy to lessons learned from the downturn to achieve sustainable profitability.
- Operational improvement and efficiency.
- Secure diversification of funding channels in cooperation with Volvo Treasury.

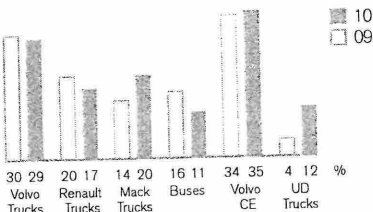
Net sales as percentage of Volvo Group sales



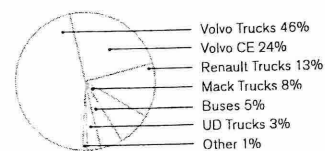
Operating income (loss)



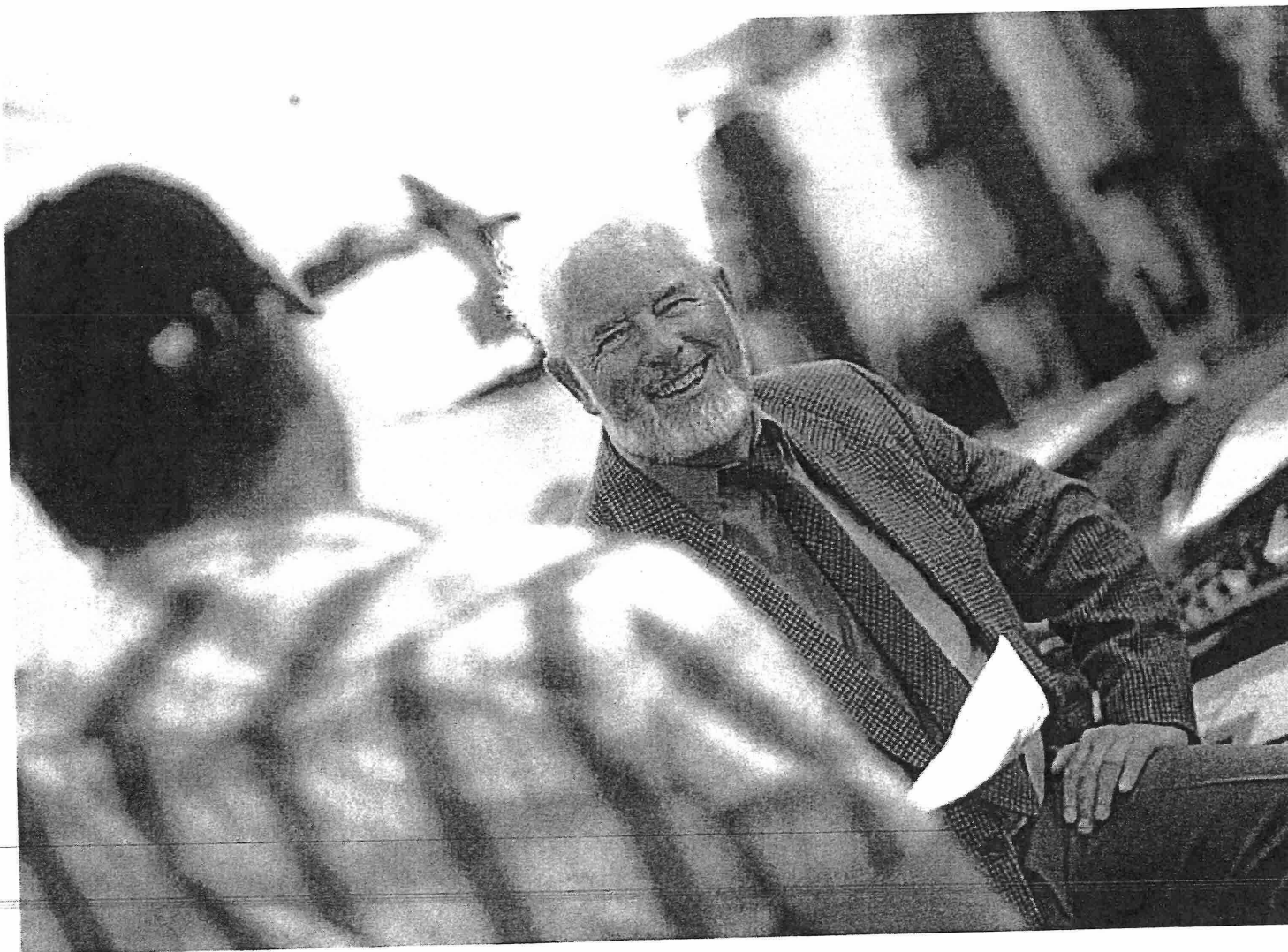
Penetration¹



Distribution of credit portfolio



¹ Share of business financed by Volvo Financial Services in markets where financial services are offered.



Outcome 2010

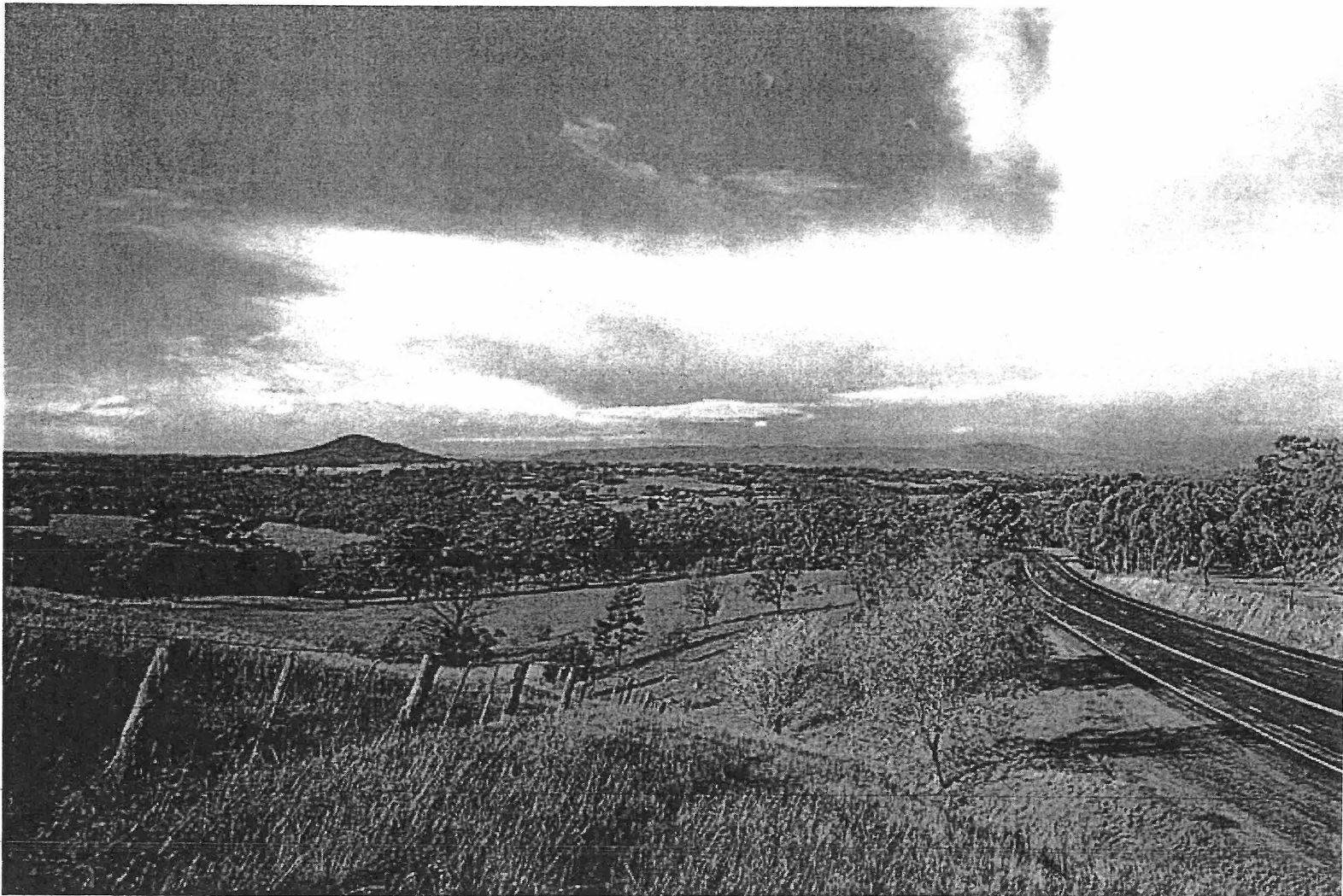
- Re-established positive portfolio trends and maintained strong customer and dealer relationships.
- Improved segmentation analysis and institutionalized best practices across all regions.
- Aligned regional resources and operations to market conditions and rationalized cost structure.
- Executed on capital strategies including asset-backed securitization, syndication and private label finance programs.

Ambitions 2011

- Achieve profitable growth in all markets.
- Continue to improve operational leverage and efficiency.
- Increase standardization of processes and systems.
- Continue to develop BRIC markets.

MOVING THE WORLD

Volvo trucks are the backbone
in the long-haul transports that deliver mail
to an entire continent

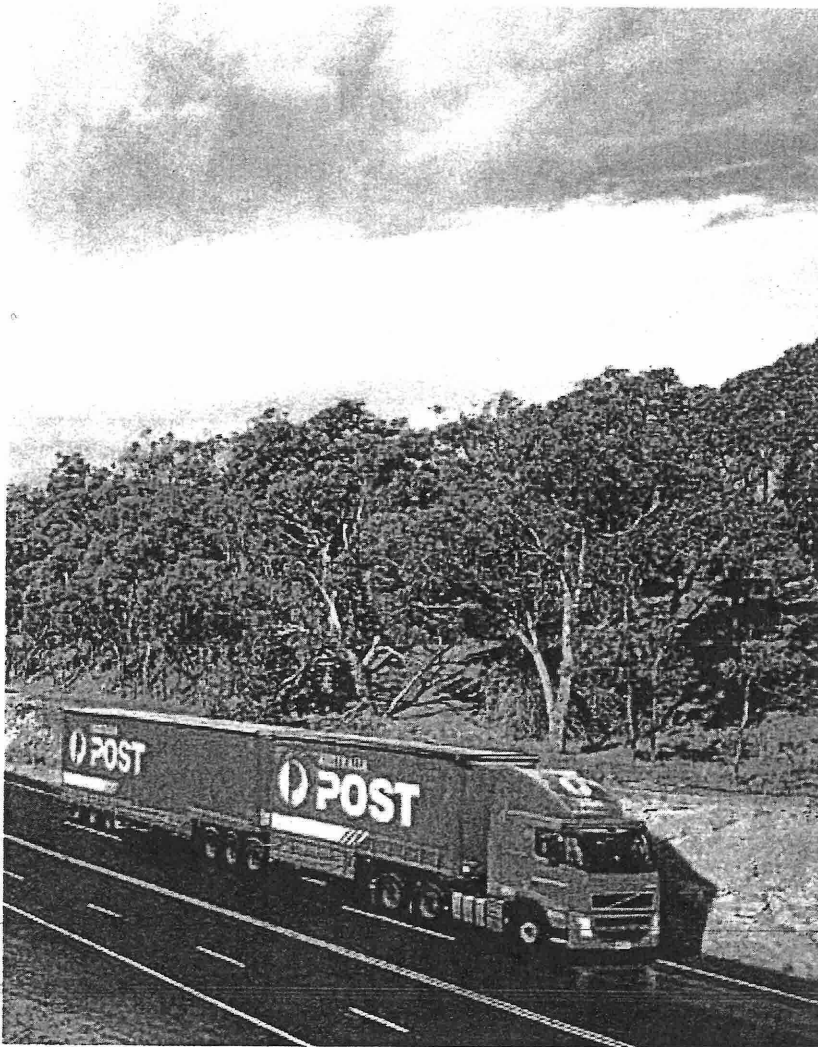


From the earth to the moon and back - 32 times over

Distances in Australia are huge. From Sydney on the east coast to Perth on the west coast, the route covers 4,110 kilometers. That's the same distance as the crow flies between Madrid and Moscow. Australia Post's line haul vehicles cover a total of 25 million kilometers every year, the distance from the earth to the moon and back - 32 times over.



All over the world, people are waiting for the mailman. Distributing mail is a complex and challenging logistical task, especially in Australia. 21 million letters and parcels reach their destination every day, despite vast distances and some of the toughest road conditions in the world. Without reliable trucks, it wouldn't be possible.



Twin beams of light cut through the darkness and driver Rick Hoyne is on the alert as he pilots his Volvo FH through the Australian night. Based in Melbourne, Rick is a 22 year veteran with Australia Post. This particular night he is heading for Dubbo, a route covering more than 700 kilometers. There, another driver takes over, continuing the long journey to Brisbane.

Rick is driving on a long straight stretch of the Newell Highway near the isolated town of Jerilderie in Western New South Wales. The region is in the grip of drought and kangaroos flock to the roadside where the grass growing along the verge is moist from dew. Rick stares intently through the windscreen, ready to take evasive action should the need arise.

Australia is known for having among the world's toughest road conditions for trucks. The weather in Australia varies from tropical storms with temperatures approaching 40 degrees Celsius in the far north, to snow and ice in the Australian Alps in the south.

"Australia is a big country. The distances are vast so it is important that all aspects are taken into consideration to ensure on-time delivery," says Chris Pearce, Manager Surface Transport, Network Distribution Transport at Australia Post.

The company handles postal distribution to all cities and towns in the country. Its fleet consists of vehicles ranging from motorcycles to tractors with double semi-trailers. Delivering mail in Australia is a huge logistical task. Australia Post handles 21 million postal items daily, of which two million parcels, and the figure rises to more than double that around the Christmas peak period.

125 Volvo FH trucks make up the core of the line haul transports. 65 of the trucks pull double semi trailers, so called B-doubles. By using larger rigs, many smaller trucks can be replaced. This means more fuel-efficient transportation, lower emissions, less congestion and less road wear. With the installation of front underrun protection and high cab safety as standard, Volvo was one of the first truck makers to meet the legislation for 26-meter B-Double rigs in the country.

All the trucks are fitted with Volvo's transport information and driver alert systems. The strong and safe cab also plays a role in the operation as Australia has an ongoing problem with kangaroos crossing highways, as well as loose livestock in unfenced regions.

Rick Hoyne remains on the lookout for kangaroos on his night route.

"You need to be comfortable to be safe. On long-distance routes, fatigue is reduced when the truck you are driving is comfortable", he says.

SUSTAINABLE DEVELOPMENT

A responsibility that is the continuous focus of the Group

To be a responsible company with the ability to adapt to changes in the surrounding world is becoming increasingly important to the success of the Volvo Group. The Group is responsible for developing transport solutions that convey cargo and passengers as efficiently as possible, while contributing to the economic development of customers and society as a whole.

The world is facing major challenges. The need for transport will increase due to higher financial prosperity, increased urbanization and higher population. Through active dialog with the Group's stakeholders and by weighing their expectations against internal strategies, the Volvo Group endeavors to create solutions for the future that are adapted to a sustainable society.

We have identified four key areas within sustainable development:

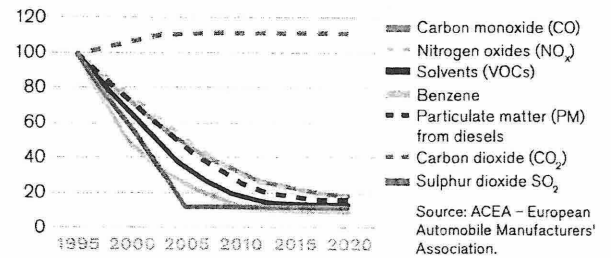
- 1 Products' environmental impact
- 2 Responsible sourcing
- 3 High-performing organization
- 4 Company culture



1 Products' environmental impact

Fuel costs represent approximately one third of costs for a transport company. More than 95% of the energy consumption in the transport sector is oil-based. The supply of easily accessible and cheap crude oil is diminishing, which will lead to higher fuel prices. In 2013, the Euro VI emission legislation will come into force, entailing that emission of NO_x and particles will decrease to very low levels. In several parts of the world, carbon-dioxide legislation for heavy vehicles is being prepared. The Volvo Group continued to invest in the development of environmentally adapted, efficient products, even during the financial crisis from which we are now exiting.

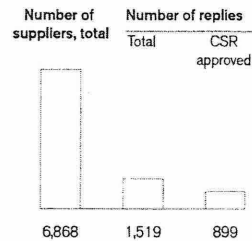
Road transport emissions in the EU



Within the EU all road transport emissions except for CO₂ are expected to decrease in the future. This is the result of stringent emission regulations.

2 Responsible sourcing

The Volvo Group has a significant impact on the societies in which we operate. The companies in the Group are major employers and also generate employment opportunities for many suppliers. The Volvo Group endeavors to conduct responsible enterprise based on the Group's Code of Conduct, its core values and other established guidelines. In terms of the environment, responsibility for social and business ethics is integrated in the operations and the Group aims to apply these policies with its business partners. This is a part of the risk management process and a way for the Group to reduce the impact on the environment, while contributing to a positive social development.



Volvo Group expect its suppliers to be compliant with the Group's CSR requirements. The requirements are an integrated part of the Group's sourcing process. Potential and existing suppliers are monitored from a CSR perspective to increase the awareness and to follow up on compliance. 15 months after the launch of the program almost every fourth supplier has been monitored and of these 59% are compliant with Group requirements. The most common reason for non-compliance is that suppliers did not pass the requirements further on in the supply chain.

3 A high-performing organization

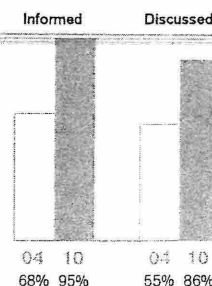
Increased global presence, new products, introduction of new technology, demographic changes and more rapid fluctuations in the global economy will lead to challenges in the supply of expertise and resources, as well as increased focus on the organization's ability to adapt to changing market conditions. It will also place high demand on the Group to generate commitment and motivate employees to develop and propel the implementation of the Group's strategy. These factors entail risks as well as opportunities.



4 Company culture

The company's culture is a critical prerequisite for sustainable growth. Unlike technologies, strategies, business concepts or organizational structures, culture is a unique asset. In the document Volvo Way we described our corporate culture for the first time in 1999. Volvo Way describes our values and how the employees may contribute to generating added value for customers and shareholders.

Active work with company culture



95% of responding leaders have informed their team about updated content in The Volvo Way (2004: 68%)

86% of respondents has discussed how The Volvo Way principles should influence the team's daily work (2004: 55%)

1 Products' environmental impact

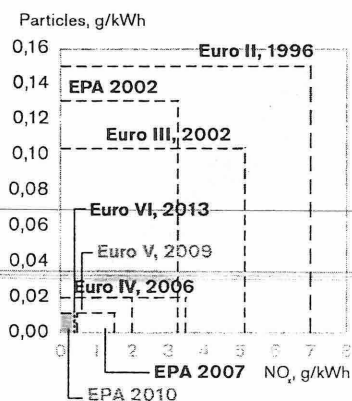
Cost for, access to and availability of fuel, as well as legislation in the environmental area impacts the Volvo Group. Problems with air pollution and climate change entail more stringent legislations. These are some of the factors which Volvo must handle and its work has focused on the development of energy-efficient engines, hybrid engines and vehicles that can operate on alternative fuels.

Since 1975, fuel consumption in Volvo's trucks has decreased by approximately 40%. Over the past 30 years, diesel engines have seen an almost hundredfold reduction of regulated emissions of nitrogen oxide (NO_x) and particles (PM). When Euro VI gains legal force in the EU in 2013, emissions of NO_x and PM will be at very low levels, but CO₂ emissions will remain.

Hybrids

The Volvo Group has a number of environmentally adapted products in its customer offering and future solutions that are now being tested in the field in cooperation with customers.

Emissions regulations for trucks and buses



In September 2009, Euro V was implemented in Europe and in January 2010, EPA 2010 was implemented in North America. Euro V entails a 50% reduction of NO_x emissions compared to Euro IV. With the implementation of EPA 2010, emission levels for particulates and NO_x are close to zero.

The Volvo Group's unique diesel-electric hybrid concept, I-SAM, has made the Group the leader in hybrid heavy vehicles. Because the Group develops and manufactures solutions, this facilitates coordination and optimization of products and components to produce the most efficient driveline. The Volvo Group's development program comprises city buses and distribution trucks, as well as construction equipment. Measurements on customers' hybrid buses show significantly lower fuel consumption of up to 35%, corresponding to the same reduction of CO₂ emissions, strongly reduced emissions of PM, which generate cleaner air, and also lower noise levels since diesel engines switch off at bus stops.

Alternative fuels

Three years ago, the Volvo Group presented seven different demonstration vehicles that can all be driven without net emissions of climate-impacting carbon dioxide. This resulted in a development project pertaining to two of the alternatives: methane diesel and DME (dimethylether). The benefit of methane diesel technology is that methane fuel already today is available as a fuel for vehicles. Trucks, buses, construction equipment and industrial engines are being field tested and sales of trucks with methanadiesel-engines is planned to begin in 2011. BioDME is currently available only on a small scale in the market. Since the Volvo Group believes that this

fuel is the most energy-efficient from a lifecycle perspective, Volvo plays an active role in the BioDME project. The aim of the project is to involve the entire chain from the production and distribution of BioDME, to it being used as fuel in vehicles. The project is financed by the EU and the Swedish Energy Agency. Volvo's portion of the project is to be project coordinator and to build vehicles for field testing.

Cooperation with WWF

The Volvo Group has a vision that future transport will be CO₂ neutral. As part of this, the Volvo Group was the first manufacturer in the automotive industry to be affiliated with WWF's Climate Savers. As a participant in WWF's program, the Volvo Group's truck company undertakes to reduce CO₂ emissions from vehicles produced between 2009 and 2014 by 13 million tons, which corresponds to Sweden's total emissions for three months. Independent technical experts will review the results.



碳减排先锋
Defensores do Clima
クライメート・セイバーズ
Climate Savers



2 Responsible sourcing

It is becoming increasingly important for the Group's stakeholders that the Volvo Group conducts responsible business operations. In dialog with investors, representatives of affiliated organizations, financiers, customers, employees, etc., expectations of Volvo are expressed. Several requested that the Group must assume responsibility not only for its own operations but also for issues pertaining to suppliers' efforts concerning social, environmental and business ethics. The Volvo Group endeavors to assume responsibility by placing demands on its suppliers.

The Volvo Group's CSR program (Corporate Social Responsibility) for suppliers aims at developing working conditions and environmental performance with suppliers that do not already comply with the Group's demands, by monitoring, communicating and training them. Since 1996, Volvo has placed demands on suppliers' environmental performance and in 2006, social and business ethics requirements were introduced. In 2008, the Volvo Group introduced a paragraph in agreements with new suppliers, which pledges them to comply with the policies in the Group's Code of Conduct. In October 2009, the new Groupwide CSR program for suppliers was launched. This means that there is now a joint

process for the evaluation of potential suppliers, as well as to monitor current suppliers. During 2010, Volvo worked on evaluating the processes' efficiency and this will be used as the basis for the way in which the CSR program will develop in the future.

Approximately 35,000 companies deliver products and services to the Volvo Group. Of these, about 6,000 deliver direct material, i.e. material that is used in the products. Currently, the control group for responsible purchasing is focusing on existing suppliers in countries that have challenges in terms of non-compliance with legislation within work environment, human rights and business ethics.

We monitor suppliers' CSR performance by evaluation. During the 15 months of the program, approximately 1,500 suppliers of direct material were audited and of these, 59% complied with the requirements. The absolutely most common reason for non-compliance with the requirements is that the suppliers did not pass on the requirements of the Volvo Group to their own suppliers.

The Global Compact

The Volvo Group supports the UN's Global Compact, which was designed to promote responsible business enterprise worldwide, and commits itself to implementing and integrating ten principles regarding human rights, working conditions, business ethics and the environment in its operations.



3 High-performing organization

A crucial factor for the implementation of the Group's strategy is the contribution from employees, their expertise and commitment. To secure and develop strategic expertise and resources in the long-term is fundamental in order to maintain an efficient and adaptable organization.

Employee engagement

A positive and challenging work environment is a prerequisite for high-performing and committed employees. To create the conditions for this, the Group focuses on a number of different areas, for example competency and leadership development, work environment and preventive health care.

The Group's employees are annually requested to respond to the Volvo Group Attitude Survey (VGAS), which will focus on employee engagement starting in 2011. The response frequency for the most recent survey was 94%. The responses from the survey are discussed in work groups and result in activity plans. VGAS also facilitates comparisons with other global organizations.

Secure strategic competence

The Volvo Group works proactively with three-year rolling competency plans, where strategic competency needs are identified, gaps analyzed and action plans established. This is followed up in the annually recurring processes, President's review and Talent Review, where succession planning is also secured.

To prepare leaders of today and the future for upcoming assignments, work is in progress to develop a strategy for leader development, including training programs, tools and methods, for leaders at all levels within the organization, according to the Group's "Leadership Pipeline" concept. This is a structured method that is based on global research and that different competencies are required at various decision levels



in the organization. The concept is connected to Volvo Way, the company culture, and strategic goals.

Internal mobility between companies, across national borders and between functions is another way in which to secure competency and succession planning. This also contributes to a more efficient organization by increased experience exchange and diversity. A strategic initiative aimed at increasing internal mobility is in progress.

Leverage diversity through inclusive leadership

Diversity and an inclusive leadership approach have a positive impact on innovation and productivity. The Volvo Group works actively on fostering a corporate culture aimed at capitalizing on the strength in the organization's diversity, including through leadership training courses.

New numerical values were introduced in

2010: Balanced Team Indicator that measures the quantitative aspect of diversity (nationality, gender, age and experience from the Group's various companies), and the Inclusiveness Index, which measures the qualitative diversity, meaning how diversity work is perceived by the employees. The results are followed up annually in the President's Review.

An adaptable organization

The sudden decline in the global market in 2009 resulted in an increased focus on the organization's ability to adapt. A strategic goal is to secure optimal structure and staffing levels to cope with changing market conditions, but to also support the launch of new technology and be able to execute decisions and implement changes rapidly and efficiently. A Group-wide follow-up process pertaining to flexibility was introduced in 2010.

4 Company culture

The company culture is a critical prerequisite for sustainable growth. Unlike technologies, strategies, business models or organizational structure, the company culture is hard to copy.

Volvo Way shows what we stand for and aspire to be in the future. It expresses the culture, behaviors and values shared across the Volvo Group.

It expresses the cohesive culture, behavior and values shared across the Volvo Group. Volvo Way was first introduced in October 1999. Several new businesses with different brands have since been acquired. The industrial systems have been integrated, and concerted efforts were underway to enhance performance.

"Managing the global financial downturn in 2008 and 2009, Volvo Group learned some important lessons. We need to be lean. We need empowered employees. We need to be accountable, aligned, agile and able to execute decisions. We need to turn outward, add customer value and drive change," wrote CEO Leif Johansson in a letter to all managers introducing the new Volvo Way in October 2009.

The new Volvo Way reflects an ambitious endeavor of creating a cohesive culture throughout the whole Volvo Group. This is a culture of enablement, based on global principles and shared values:

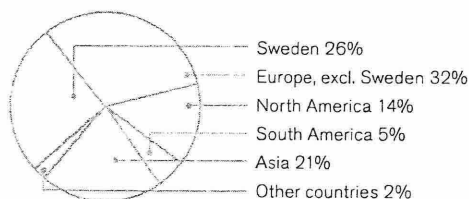
Our culture is how we work together with energy, passion and respect for the individual. It is about involvement, open dialogue and feedback. It is about diversity, teamwork and leadership. It is how we build trust, focus on customers and drive change. Our culture embodies individual responsibility and accountability for results. This means a clear orientation towards common goals and solutions, and a strong determination to grow, develop and improve. It is how we conduct our business around the world.

The new Volvo Way supports the strategy for delivering added value to demanding customers in selected segments. In this customer centric

Key figures

	2009	2010
Number of employees at year-end	90,208	90,409
Share of women, %	17	16
Share of women, Board Members, %	11	12
Share of women, Presidents and other senior executives, %	19	15
Absence due to illness in the Group's Swedish companies		
Total absence due to illness of regular working hours, %	3.6	3.3
of which continuous sick leave for 60 days or more, %	35.8	38.0
Absence due to illness (as percentage of regular working hours) by gender		
Men, %	3.5	3.2
Women, %	3.9	3.6
Absence due to illness (as percentage of regular working hours) by age		
29 years or younger, %	2.7	2.3
30-49 years, %	3.6	3.1
50 years and older, %	3.7	3.8

Geographic distribution of employees





culture, there is a strong focus on responsiveness, agility and the ability to execute with speed. Truly making the organization more efficient, demands further developing employee engagement and commitment to the company's strategic objectives for future business success.

To be involved means that we take individual responsibility for decisions. This employee engagement results in a strong driving force to meet agreed objectives and goals. All of us feel accountable for driving improvements and building the future. Only engaged employees can deliver the highest quality and efficiency.

During the first half of 2010, the new Volvo Way was disseminated to all employees by their immediate manager. Nearly two out of three teams have identified local improvement actions. To build a high commitment and high performance working culture will require continuous attention and support by management. The result is a more resilient organization.

We are convinced that a cohesive culture based on global values strengthens our brands and makes Volvo Group a more attractive employer, business partner and industry leader.

Production

The environmental effort is and has long been one of the cornerstones in the Group's work. The joint environmental policy is one of the most important documents for control. The policy is the foundation of the Group's environmental management system, strategies and targets, audits and measures.

Already in 1995, the first environmental management system was certified. At the end of 2010, 96% of the employees in production units were working in accordance with the certified environmental management system, primarily ISO 14001:2008. At each production unit, there is an environmental coordinator.

The Group's environmental goals are used to control, develop and monitor the environmental effort. Strategies to achieve the goals are included in the business plan. During the 2004–2008 period, the Volvo Group focused on energy reduction in its own production process. Energy consumption decreased during the period by 43% per produced unit.

The energy-saving goal for 2010–2012 is divided into two parts:

- Continue the work with investigating the possibility of making the Group's facilities carbon-neutral.
- Standby loss, i.e. energy consumption during non-production hours, must decrease by 50% and an additional 15% energy-saving per produced unit by 2012, compared with 2008.

Focusing on energy-savings measures is good for both the environment and the Group's financial results. A couple of years ago, when the Volvo Group launched the world's first carbon-neutral plant, the primary reason was to reduce the environmental load, but it soon became quite clear that it was also a solid financial investment, which will generate significant cost savings in the long term.

All production plants must comply with the common minimum requirements pertaining to chemicals, energy consumption, emissions to air and water, waste management, environmental organization and improvement work. Since 1989, environmental audits have been conducted to ensure compliance with the environmental policy and in the event of acquisitions, a review is conducted of the company and properties to observe environmental factors and risks.

In 2010, there were 17 facilities in Sweden that required permits. All have the necessary environmental permits and no permits needs to be renewed in 2011. The existence of contaminated land in our properties is documented annually. During 2010, the after-treatment of contaminated land was in progress on one property. These have historical origins. During 2010, no spills were reported, no major environmental incidents occurred and no environmental disputes are ongoing.

» Volvo Group Sustainable Report will be available on www.volvogroup.com in mid-April.

» Volvo Group's environmental performance For information on the Volvo Group's environmental performance see the Eleven-year summary.

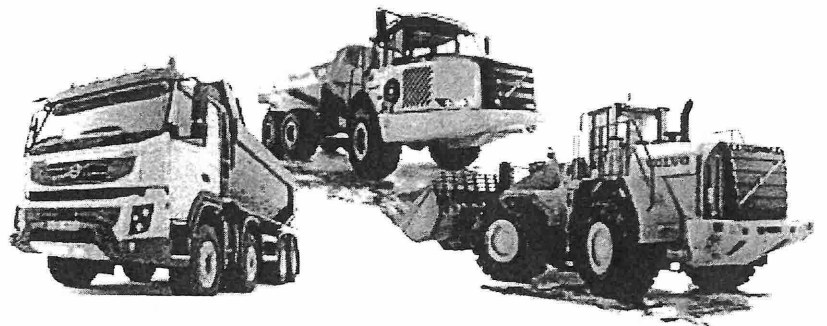
MOVING THE WORLD

Fourteen centimeters of
newly-fallen snow and ready for take-off
in ten minutes



About the snow-clearing operations at Arlanda Airport

Two centimeters of snow means 1,200 truck-loads to be transported to the snow dump. One centimeter of snow means four days of work, round-the-clock. All told, snow from an area covering 700 hectares is cleared between 10 and 50 times daily during a typical winter's day. Arlanda has among the world's largest snow blowers, and they are powered by Volvo. There are 17 Volvo A25D articulated haulers, nine wheel loaders of various Volvo models and a number of Volvo trucks.



Each year, 2 billion people fly all over the world. This means high demands on the maintenance of the airports, especially when the snow falls. In less than ten minutes, Volvo's specially-built articulated haulers clear the runways at Stockholm's Arlanda Airport, which has never had to close because of the snow.



When the snow and cold temperatures take a steady grip the affect on our airports is obvious. During early 2010 Frankfurt Airport, the third largest in Europe, was forced to cancel more than 200 flights in one single day.

At Arlanda Airport just north of Stockholm, aircraft take off and land almost every second minute round the clock. More than 18 million people travelled to or from Arlanda in 2008 and more than 200,000 tons of cargo was handled by the airport. During the winter months, heavy snowfall is not unusual and even if flights are occasionally delayed owing to particularly heavy snowfall, the airport has never once been shut down by snow since its opening back in 1962.

To keep the airport moving, a team of 130 people work with tackling snow and ice in the high season. They are aided by a wide-ranging fleet of Volvo products featuring specially built accessories. The most advanced vehicles are the PSB machines. PSB stands for Plow, Sweep and Blow, and they are based on Volvo Construction Equipment articulated hauler. At the front of the vehicle is a 7.3 meter wide plow that shovels most of the snow off the tarmac. It is followed by a brush that sweeps away snow and ice, and the job is rounded off by a blower which with an extraction speed of 130 m/s blows away the rest. The system is also in operation at, among others, Brussel's airport Zaventem.

By driving nine such machines alongside each other, it is possible to clear a 3.3 kilometer long and 45 meter wide runway in less than ten minutes.

"This makes us the world's fastest airport snow-plow team," says Stefan Sundkvist, field coordinator at Arlanda Airport.

In the fleet, there is also a number of Volvo wheel loaders that are equipped with snow-plows, sweepers and snow blowers in the winter. At an airport, safety is absolutely everything. That is why the snow "sweepers" as they are called in the language of international aviation are an integrated part of traffic planning and are in constant contact with the control tower. Just as an aircraft gets its take-off and landing times, so too do the sweepers get a slot to clear the snow and ice off the tarmac.

"We have a total of 250,000 square meters to clear from snow and ice, at the same time as the aircraft have to continue taking off and landing. There's absolutely no room for driving around haphazardly – all the traffic has to be controlled and planned down to the most minute detail," says Stefan Sundkvist.

FINANCIAL STRATEGY

Balancing return and security

The purpose of Volvo's long-term financial strategy is to ensure the best use of Group resources in providing shareholders with a favorable return and offering creditors reliable security.

Volvo's goals are strong and stable credit ratings

A long-term competitive market position requires availability of capital to implement investments.

The financial strategy ensures that the Group's capital is used in the best possible manner by:

- balancing shareholders' expectations on returns with creditors' demands for reliable security
- strong and stable credit ratings
- diversified access to financing from the capital markets
- margin in the balance sheet to cope with a strong decline in the economy
- customer financing at competitive conditions to our customers
- favorable return to shareholders.

The goal concerning capital structure is defined as the financial net debt for the Industrial Operations and it shall under normal circumstances be below 40% of shareholders' equity.

Volvo carefully monitors the trend of financial key ratios to confirm that the financial position is in line with the Group's policy. The financial key ratios include order intake, operational development and financial development.

Measures to improve the financial position

The strong upswing in demand for the Group's products in 2010 improved the Volvo Group's financial position. The financial net debt in Industrial Operations declined during the year from 70.9% of shareholders' equity to 37.4%. The Group implemented comprehensive measures during the year to improve its financial position.

During the global financial crisis, the Volvo Group increased the ratio of liquidity relative to sales. As a consequence of the financial markets stabilizing, the ratio was lowered during 2010. To further support the goal of improving the financial position, the 2010 Annual General Meeting resolved not to pay any dividend for the 2009 fiscal year.

Volvo strives for strong, stable credit ratings

The Volvo Group has continual meetings with the credit rating agencies Moody's and Standard & Poor's (S&P) to update them on the company's development. These meetings contribute to the credit rating agencies' ability to assess the Group's future ability to repay loans. A high long-

term credit rating provides access to additional sources of financing and improved access to the financial market.

On November 15, S&P changed Volvo's credit rating from BBB-/Baa3 with negative outlook to BBB-/Baa3 with stable outlook. The change was attributable to a change in Volvo's credit measurement. S&P also changed Volvo's financial risk profile to "Medium" from earlier "Significant".

Moody's corporate rating of Volvo is BBB/Baa2 with stable outlook since July 24, 2009.

Funding

Volvo works actively for good balance between short and long-term loans, as well as loan preparedness in the form of credit facilities, to satisfy the Volvo Group's long-term financing needs.

During the year, the Group diversified its loans by issuing an Asset Backed Security loan in the US for the first time.

At the end of 2010, the Group had the equivalent of SEK 32.7 billion in cash and cash equivalents and short-term investments. In addition, the Group had SEK 35.3 billion in granted but unutilized credit facilities.

Credit rating at February 15, 2011

	Short-term	Long-term
Moody's	P-2	Baa2 stable
Standard & Poor's	A-3	BBB- stable
DBRS	R-2 (high)	-
R&I (Japan)	a-1	A- positive

RISKS AND UNCERTAINTIES

Managed risk-taking

All business operations involve risk – managed risk-taking is a condition of maintaining a sustained favorable profitability.

Risk may be due to events in the world and can affect a given industry or market. Risk can be specific to a single company. At Volvo work is carried out daily to identify, measure and manage risk – in some cases the Group can influence the likelihood that a risk-related event will occur. In cases in which such events are beyond the Group's control, the Group strives to minimize the consequences.

The risks to which the Volvo Group are exposed are classified into three main categories:

- **External-related risks** – such as the cyclical nature of the commercial vehicles business, intense competition, changes in prices for commercial vehicles and government regulations.
- **Financial risks** – such as currency fluctuations, interest levels fluctuations, valuations of shares or similar instruments, credit risk and liquidity risk.
- **Operational risks** – such as market reception of new products, reliance on suppliers, protection and maintenance of intangible assets, complaints and legal actions by customers and other third parties and risk related to human capital.

External-related risk

The commercial vehicles industry is cyclical

The Volvo Group's markets undergoes significant changes in demand as the general economic environment fluctuates. Investments in infrastructure, major industrial projects, mining and housing construction all impact the Group's operations as its products are central to these sectors. Adverse changes in the economic conditions for the Volvo Group's customers may also impact existing order books through cancellations of previously placed orders. The cyclical demand for the Group's products makes the

financial result of the operations dependable on the Group's ability to react to changes in demand, in particular to the ability to adapt production levels and production and operating expenses.

Intense competition

Continued consolidation in the industry is expected to create fewer but stronger competitors. Our major competitors are Daimler, Paccar, Navistar, MAN, Scania, Caterpillar, Komatsu, Cummins and Brunswick. In recent years, new competitors have emerged in Asia, particularly in China. These new competitors are mainly active in their domestic markets, but are expected to increase their presence in other parts of the world.

Prices may change

The prices of commercial vehicles have, at times, changed considerably in certain markets over a short period. This instability is caused by several factors, such as short-term variations in demand, shortages of certain component products, uncertainty regarding underlying economic conditions, changes in import regulations, excess inventory and increased competition. Overcapacity within the industry can occur if there is a lack of demand, potentially leading to increased price pressure.

Extensive government regulation

Regulations regarding exhaust emission levels, noise, safety and levels of pollutants from production plants are extensive within the industry.

Most of the regulatory challenges regarding products relate to reduced engine emissions. The Volvo Group is a significant player in the commercial vehicle industry and one of the world's largest producers of heavy-duty diesel engines. The product development capacity within the Volvo

Group is well consolidated to be able to focus resources for research and development to meet tougher emission regulations. Future product regulations are well known, and the product development strategy is well tuned to the introduction of new regulations.

Financial risk

In its operations, the Volvo Group is exposed to various types of financial risks. Group-wide policies, which are updated and decided upon annually, form the basis of each Group company's management of these risks. The objectives of the Group's policies for management of financial risks are to optimize the Group's capital costs by utilizing economies of scale, to minimize negative effects on income as a result of changes in currency or interest rates, to optimize risk exposure and to clarify areas of responsibility. Monitoring and control that established policies are adhered to is continuously conducted. Information about key aspects of the Group's system for internal controls and risk management in conjunction with the financial reporting is provided in the Corporate Governance Report on pages 146–147. Most of the Volvo Group's financial transactions are carried out through Volvo's in-house bank, Volvo Treasury, that conducts its operations within established risk mandates and limits. Credit risks are mainly managed by the different business areas.

The nature of the various financial risks and objectives and the policies for the management of these risks are described in detail in notes 36 and 37. Various aspects of financial risk are described briefly in the following paragraphs. Volvo's accounting policies for financial instruments are described in note 1. The overall impact on a company's competitiveness is also affected however by how various macro-economic factors interact.

Currency-related risk

More than 90% of the net sales of the Volvo Group are generated in countries other than Sweden. Changes in exchange rates have a direct impact on the Volvo Group's operating income, balance sheet and cash flow, as well as an indirect impact on Volvo's competitiveness, which over time affects the Group's earnings.

Interest-related risk

Interest-related risk includes risks that changes in interest rates will impact the Group's income and cash flow (cash-flow risks) or the fair value of financial assets and liabilities (price risks).

Market risk from investments in shares or similar instruments

The Volvo Group is indirectly exposed to market risks from shares and other similar instruments, as a result of managed capital transferred to independent pension plans being partly invested in instruments of these types.

Credit-related risk

An important part of the Group's credit risk is related to how the financial assets of the Group

have been placed. The majority are placed in Swedish Government bonds and interest-bearing bonds issued by Swedish real estate financing institutions.

Liquidity risk

Volvo ensures its financial preparedness by always maintaining a certain portion of revenues in liquid assets.

Operational risk

The profitability depends on successful new products

The Volvo Group's long-term profitability depends on the Company's ability to successfully launch and market its new products. Product life cycles continue to shorten, putting increased focus on the success of the Group's product development.

Reliance on suppliers

Volvo purchases raw materials, parts and components from numerous external suppliers. A significant part of the Group's requirements for raw materials and supplies is filled by single-source suppliers. The effects of delivery interruptions vary depending on the item or component. Cer-

tain items and components are standard throughout the industry, whereas others are internally developed and require unique tools that are time-consuming to replace.

The Volvo Group's costs for raw materials and components can vary significantly over a business cycle. Cost variations may be caused by changes in world market prices for raw materials or by an inability of our suppliers to deliver.

Intangible assets

AB Volvo owns or otherwise has rights to patents and brands that refer to the products the Company manufactures and markets. These have been acquired over a number of years and are valuable to the operations of the Volvo Group. Volvo does not consider that any of the Group's operations are heavily dependent on any single patent or group of patents.

Through Volvo Trademark Holding AB, AB Volvo and Volvo Car Corporation jointly own the Volvo brand. AB Volvo has the exclusive right to use the Volvo name and trademark for its products and services. Similarly, Volvo Car Corporation has the exclusive right to use the Volvo name and trademark for its products and services.

Currencies



Source: Reuters

00	01	02	03	04	05	06	07	08	09	10	
9.2	10.3	9.7	8.0	7.3	7.5	7.4	6.8	7.8	7.2	6.7	SEK/USD
8.4	9.2	9.1	9.1	9.1	9.2	9.3	9.3	10.9	10.4	9.0	SEK/EUR
8.2	7.9	7.3	6.7	6.5	6.7	5.8	5.8	8.6	7.7	8.3	SEK/100 JPY

Interest rates in Sweden, Europe and the U.S.



Source: Reuters

Government bonds, 10 year benchmarks

00	01	02	03	04	05	06	07	08	09	10	
5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.3	2.4	3.4	3.3	Sweden %
5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.3	2.9	3.4	3.0	Europe %
6.0	5.0	4.5	4.0	4.2	4.3	4.8	4.0	2.2	3.8	3.3	U.S. %

The Volvo Group's rights to use the Renault brand are restricted to the truck operations only and are regulated by a license from Renault s.a.s., which owns the Renault brand.

Complaints and legal actions

The Volvo Group could be the target of complaints and legal actions initiated by customers, employees and other third parties alleging health, environmental, safety or business related issues, or failure to comply with applicable legislation and regulations. Even if such disputes were to be resolved successfully, without having adverse financial consequences, they could negatively impact the Group's reputation and take up resources that could be used for other purposes.

Risk related to human capital

A decisive factor for the realization of the Volvo Group's vision is our employees and their knowledge and competence. Future development depends on the company's ability to maintain its position as an attractive employer. To this end, the Volvo Group strives for a work environment in which energy, passion and respect for the individual are guiding principles. Every year a Group-wide sur-

vey is conducted, and according to the survey the share of satisfied employees has been on a high level in recent years.

Short-term risk factors

An increase in demand could potentially result in delivery disturbances due to suppliers' financial instability or shortage of resources.

Uncertainty regarding customers' access to the financing of products in emerging markets might have a negative impact on demand.

Volvo verifies annually, or more frequently if necessary, the goodwill value of its business areas and other intangible assets for possible impairment. The size of the overvalue differs between the business areas and they are, to a varying degree, sensitive to changes in the business environment. Instability in the business recovery and volatility in interest and currency rates may lead to indications of impairment.

The reported amounts for contingent liabilities reflect a part of Volvo's risk exposure, see note 29 for contingent liabilities.

Contractual conditions related to take over bids

Some of AB Volvo's long term loan agreements contain conditions stipulating the right for a bondholder to request repayment in advance under certain conditions following a change of the control of the company. In Volvo's opinion it has been necessary to accept those conditions in order to receive financing on otherwise acceptable terms. Provisions stipulating that an agreement can be changed or terminated if the control of the company is changed are also included in some of the agreements whereby Renault Trucks' has been given the right to sell Renault s.a.s.' and Nissan Motor Co. Ltd's light-duty trucks as well as in some of the Group's purchasing agreements.

» Further information

Note 34 Personnel contains information concerning rules on severance payments applicable for the Group Executive Committee and certain other senior executives.

Note 36 and 37 contain information regarding financial risks as well as goals and policies in financial risk management.

Further risk information is provided in note 2 and note 29.

THE SHARE

Rose by 93% during 2010

After the recovery that began in 2009, the trend continued to be positive for both the Volvo share and the world's leading stock markets in 2010.

The Volvo share is listed on the Nasdaq OMX Nordic Exchange in Sweden. One A share entitles the holder to one vote at Annual General Meetings and one B share entitles the holder to one tenth of a vote. Dividends are the same for both classes of shares.

The Volvo share is included in a large number of indexes that are compiled by Dow Jones, FTSE, S&P and Nasdaq OMX Nordic.

Positive development on the stock market

In general, the development on the world's leading stock exchanges was positive after the recovery that began in 2009. On Nasdaq OMX Nordic, the OMXSPI index rose by 23% during the year.

Trading in Volvo A shares on Nasdaq OMX Nordic increased by 38% compared to 2009 and the share price increased by 89%. At year-end the price for the Volvo A share was SEK 115. The highest price paid was SEK 115.70 on December 30, 2010.

Trading in Volvo B shares on Nasdaq OMX Nordic decreased by 16% compared to 2009. The share price increased by 93% and was SEK 118.50 per share at year-end. The highest price paid was SEK 118.80 on December 30, 2010.

In 2010, a total of 2.5 billion (2.9) Volvo shares were traded in Stockholm, corresponding to a daily average of 9.8 million (11.4). At year-end 2010, Volvo's market capitalization totaled SEK 238 billion (124).

An increasing portion of the trading in Volvo shares is carried out on alternative exchanges such as Bats Europe, Burgundy and Chi-X.

Ownership changes

In October 2010, AB Volvo's main shareholder, Renault, sold its entire holding of 302,915,940 B shares. Buyers of the shares were a large number of institutions from around the world. Through the sale, Renault's holding in AB Volvo decreased from 21.8% of the capital and 21.3% votes to 6.8% of the capital and 17.5% of the votes. Even after the sale, Renault continues to be AB Volvo's largest owner based both on capital and on voting rights.

Dividend

Based on the much improved profitability and a significantly reduced debt level, the Board proposes to resume dividends with a pay-out of SEK 2.50 per share for the financial year of 2010, which means a total of SEK 5,069 M is being transferred to AB Volvo's shareholders. No dividend was paid for the preceding year.

Communication with the shareholders

Dialog with the shareholders is important for Volvo. In addition to the Annual General Meeting and a number of larger activities aimed at professional investors, private shareholders and stock market analysts, the relationship between Volvo and the stock market is maintained through such events as press and telephone conferences in

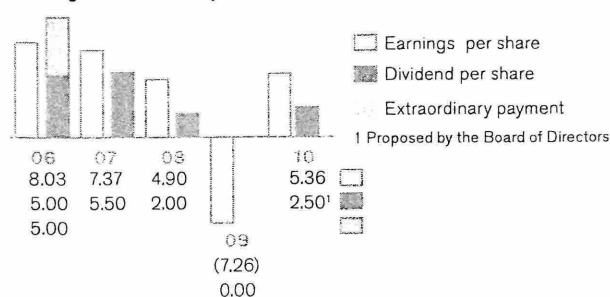
conjunction with the publication of interim reports, meetings with retail shareholders' associations, investor meetings and visits, as well as road shows in Europe, the U.S. and Asia.

During 2010 a number of large events were held:

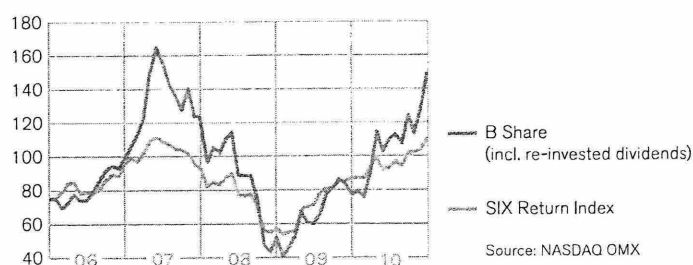
- An investor day in Shanghai in May in cooperation with five other Swedish capital goods companies. On the agenda was a visit to Volvo Construction Equipment's production facilities among other topics.
- In June, the annual capital markets day was held in Skövde, Sweden with a tour of the Group's foundry and engine manufacturing.
- An investor day in Curitiba, Brazil was held in September. It included a factory tour and presentations of the business and strategy in South America.
- An investor day in New York City in November contained a presentation of the Group strategy and in-depth information on the North American market.

On the website www.volvogroup.com it is possible to access financial reports, search for information concerning the share, insider trading in Volvo and statistics for truck deliveries. It is also possible to access information concerning the Group's governance, including information about the Annual General Meeting, the Board of Directors, Group Management and other areas that are regulated in the "Swedish Code of Corporate Governance." The website also offers the possibility to subscribe to information from Volvo.

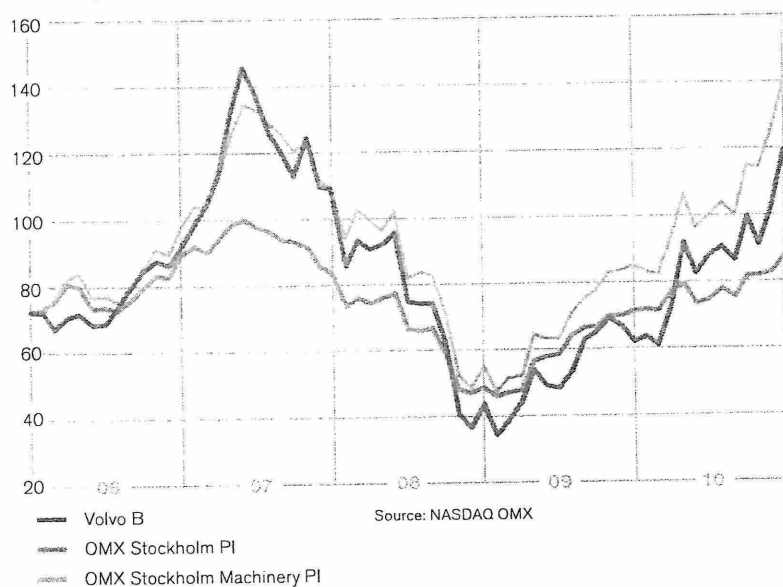
Earnings and dividend per share



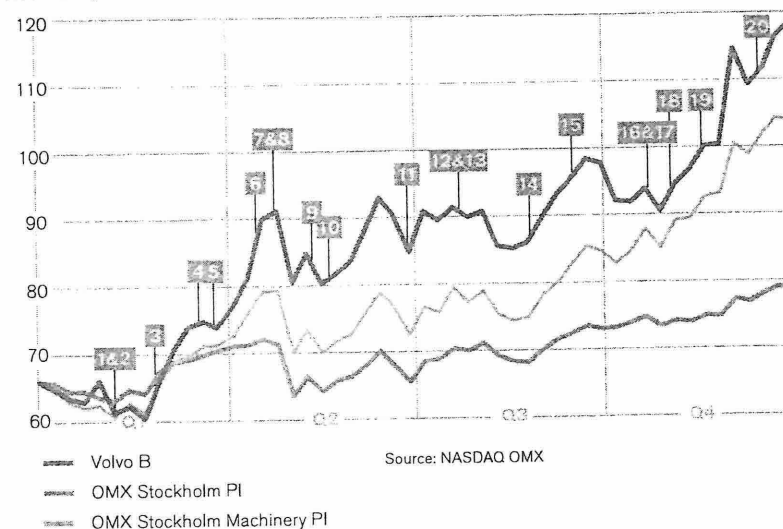
Total return, Volvo B



Price trend, Volvo Series B shares, 2006-2010, SEK



Price trend, Volvo Series B shares, 2010, SEK



The largest shareholders in AB Volvo, December 31¹

	Voting rights, %	
	2009	2010
Renault s.a.s.	21.3	17.5
Industrivärden	8.8	11.1
Violet Partners LP	5.5	5.5
SHB ²	6.2	4.8
AMF Insurance & Funds	3.9	3.9

1 AB Volvo held 20,728,135 class A shares and 80,265,060 class B shares comprising in total 4.7% of the number of registered shares on December 31, 2010.

2 Comprises shares held by SHB, SHB Pension Fund, SHB Employee Fund, SHB Pensionskassa and Oktogonen.

Share capital, December 31, 2010

Registered number of shares ¹	2,128,420,220
of which, Series A shares ²	677,601,630
of which, Series B shares ³	1,450,818,590
Quota value, SEK	1.20
Share capital, SEK M	2,554
Number of shareholders	240,043
Private persons	223,600
Legal entities	16,443

More details on the Volvo share, see note 23.

1 The number of outstanding shares was 2,027,427,025 at December 31, 2010.

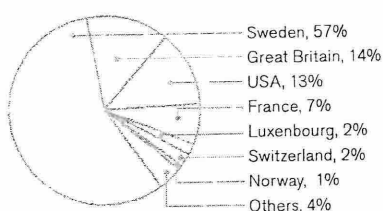
2 Series A shares carry one vote each.

3 Series B shares carry one tenth of a vote each.

Events

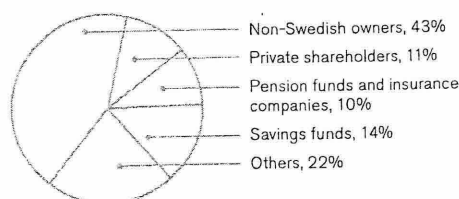
- | | | | |
|--|--|---|---|
| 1 Truck deliveries for December 2009, February 5 | 6 Annual General Meeting, April 14 | 11 Capital markets day in Skövde, Sweden, June 22 | 16 Truck deliveries for September, October 22 |
| 2 Year-end report 2009, February 5 | 7 Truck deliveries for March, April 23 | 12 Truck deliveries for June, July 22 | 17 Third quarter report, October 22 |
| 3 Truck deliveries for January, February 24 | 8 First quarter report, April 23 | 13 Second quarter report, July 22 | 18 Investor day in New York, November 2 |
| 4 Annual report 2009, March 17 | 9 Truck deliveries for April, May 5 | 14 Truck deliveries for July, August 25 | 19 Truck deliveries for October, November 17 |
| 5 Truck deliveries for February, March 24 | 10 Investor day in Shanghai, China, May 12 | 15 Truck deliveries for August, September 15 | 20 Truck deliveries for November, December 15 |

Ownership by country¹



1 Share of capital, registered shares.

Ownership categories¹



1 Share of capital, registered shares.

The employees' ownership of shares in Volvo through pension foundations is remote.

» More details on the Volvo share are provided in note 23 to the financial statements and in the Eleven-year summary.

FINANCIAL PERFORMANCE

Strong earnings improvement

The Volvo Group made a turnaround in profitability and recorded operating income of SEK 18 billion thanks to higher sales volumes, strict cost control, increased capacity utilization and a good productivity trend in the industrial system.

Net sales by business area

SEK M	2009	2010	%
Trucks	138,940	167,305	20
Construction Equipment	35,658	53,810	51
Buses	18,465	20,516	11
Volvo Penta	8,159	8,716	7
Volvo Aero	7,803	7,708	(1)
Eliminations and other	(538)	(680)	-
Industrial Operations¹	208,487	257,375	23
Customer Finance	11,712	9,031	(23)
Reclassifications and eliminations	(1,838)	(1,658)	-
Volvo Group	218,361	264,749	21

¹ Adjusted for acquired and divested units and changes in currency rates, net sales for Industrial operations increased by 29%.

Net sales by market area

SEK M	2009	2010	%
Western Europe	84,452	87,241	3
Eastern Europe	9,632	12,570	31
North America	37,291	45,409	22
South America	16,610	27,876	68
Asia	44,842	65,072	45
Other markets	15,660	19,207	23
Total Industrial Operations	208,487	257,375	23

Operating income (loss) by business area

SEK M	2009	2010
Trucks	(10,805)	10,112
Construction Equipment	(4,005)	6,180
Buses	(350)	780
Volvo Penta	(230)	578
Volvo Aero	50	286
Eliminations and other	(994)	(102)
Industrial Operations	(16,333)	17,834
Customer Finance	(680)	167
Volvo Group	(17,013)	18,000

Operating margin

%	2009	2010
Trucks	(7.8)	6.0
Construction Equipment	(11.2)	11.5
Buses	(1.9)	3.8
Volvo Penta	(2.8)	6.6
Volvo Aero	0.6	3.7
Industrial Operations	(7.8)	6.9
Volvo Group	(7.8)	6.8

The Volvo Group

Net sales

Net sales for the Volvo Group increased by 21% to SEK 264,749 M in 2010, compared with SEK 218,361 M in 2009.

Operating income

Volvo Group operating income amounted to SEK 18,000 M (loss: 17,013).

Operating income for the Industrial Operations increased to SEK 17,834 M compared with an operating loss of SEK 16,333 M in the preceding year. The Customer Finance operations' operating income rose to SEK 167 M (loss: 680).

Net financial items

Net interest expense was SEK 2,700 M, compared with SEK 3,169 M in 2009. The improvement is mainly attributable to lower expense for post-employment benefits.

During the year, market valuation of derivatives, mainly used for the customer financing portfolio, had a positive effect on Other financial income and expenses in an amount of SEK 871 M (neg: 90).

The currency in Venezuela was devalued twice during 2010, which negatively impacted Other financial income and expenses by SEK 116 M during the first quarter and an additional SEK 158 M during the fourth quarter.

Income taxes

The tax expense for the year amounted to SEK 4,302 M corresponding to a tax rate of

28%. In 2009 the tax income amounted to SEK 5,889 M and a tax rate of 29%.

Income for the period and earnings per share

The income for the period amounted to SEK 11,212 M (loss: 14,685), corresponding to basic and diluted earnings per share of SEK 5.36 (neg: 7.26). The return on shareholders' equity was 16.0% (neg: 19.7).

Industrial Operations

In 2010, net sales for the Volvo Group's Industrial Operations increased by 23% to SEK 257,375 M (208,487). Hard products accounted for SEK 166,945 M and soft products (services and aftermarket products) for SEK 90,430 M of net sales.

Compared with 2009, sales increased in all of the Group's market areas. Demand in Europe and North America recovered gradually during the year at the same time as the emerging economies in South America and Asia continued to have strong growth. However, development in Japan continued to be weak.

Considerable earnings improvement

In 2010, the operating income for the Volvo Group's Industrial Operations amounted to SEK 17,834 M, compared with an operating loss of SEK 16,333 M in 2009. The operating margin for the Industrial Operations amounted to 6.9% (neg: 7.8).

The earnings improvement is the result of increased sales, improved cost coverage in the

industrial system, as an effect of increased production levels, and continued cost control.

During 2010, operating profit was negatively impacted by higher costs for raw material and components amounting to approximately SEK 300 M compared to the preceding year.

In 2010, research and development expenses amounted to SEK 12,970 M (13,193). Even though costs decreased compared with 2009, they remained at a relatively high level primarily as a consequence of projects relating to new emission regulations in Europe, USA and Japan.

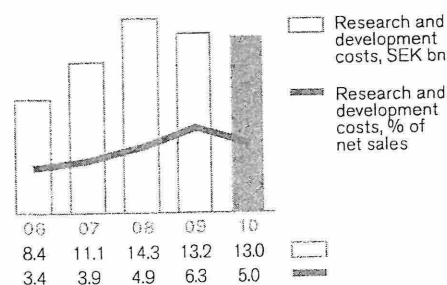
Selling expenses decreased by 5% and administration expenses by 3% compared to 2009, despite net sales increasing by 23%.

Since return on equity was 16%, SEK 350 M was provisioned for profit-sharing to employees

Impact of exchange rates on operating income

The combined effect of changed exchange rates had a positive effect on operating income of approximately SEK 3.2 billion in 2010, compared with 2009. This is mainly attributable to positive effects from forward exchange rate contracts in 2010 compared to major negative effects in 2009.

Research and development costs



Income Statement Volvo Group

SEK M	2009	2010
Net sales Volvo Group	218,361	264,749
Operating Income (loss) Volvo Group	(17,013)	18,000
Operating income (loss) Industrial Operations	(16,333)	17,834
Operating income (loss) Customer Finance	(680)	167
Interest income and similar credits	390	442
Interest expense and similar credits	(3,559)	(3,142)
Other financial income and costs	(392)	213
Income after financial items	(20,573)	15,514
Income taxes	5,889	(4,302)
Income for the period	(14,685)	11,212

Income Statement Industrial Operations

SEK M	2009	2010
Net sales	208,487	257,375
Cost of sales	(179,578)	(197,480)
Gross income	28,909	59,895
Gross margin, %	13.9	23.3
Research and development expenses	(13,193)	(12,970)
Selling expenses	(23,752)	(22,649)
Administrative expenses	(5,838)	(5,640)
Other operating income and expenses	(2,432)	(659)
Income from investments in associated companies	(15)	(86)
Income from other investments	(13)	(57)
Operating income (loss) Industrial Operations	(16,333)	17,834
Operating margin, %	(7.8)	6.9

Change in operating income

SEK bn	
Operating income 2009	(17.0)
Gross income	27.2
Provisions for healthcare benefits according to agreement with United Auto Workers, UAW	0.9
Additional provisions for residual value commitments	1.0
Changes in currency exchange rates	3.2
Higher capitalization of development costs	0.7
Higher research and development expenditures	(0.7)
Lower selling and administrative expenses	0.4
Lower credit losses	1.7
Other	0.6
Operating income 2010	18.0

Impact of exchange rates on operating income

Compared with preceding year, SEK bn	
Net sales ¹	(10.5)
Cost of sales	12.3
Research and development expenses	0.3
Selling and administrative expenses	1.1
Total effect of changes in exchange rates on operating income	3.2

¹ Group sales are reported at monthly spot rates and the effects of currency hedges are reported among Cost of sales.

Operating net flow per currency

Local currency, million	2009	2010
USD	1,803	2,410
EUR	595	373
GBP	315	405
CAD	192	241
JPY(x100)	(83)	(103)